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MONTANA LEGISLATIVE HISTORY

Chapter 666 19 87

Bill H 904 S _____ Original bill & history ___C

H. Committee on Appropriations		S. Committee on Taxation	
Hearing Date(s) Mar 30	✓ C	Hearing Date(s) Apr 09	✓ C
_____	___C	Apr 11	✓ C
_____	___C	_____	___C
_____	___C	_____	___C
Date Out Mar 30	✓ C	Apr 11	✓ C

Did this bill originate in an interim committee? ___Yes ___No

Committee _____ Report _____

	TRANSMITTED TO SENATE		
4/03	REFERRED TO FINANCE & CLAIMS		
4/08	HEARING		
4/08	COMMITTEE REPORT--BILL CONCURRED		
4/10	2ND READING CONCURRED	50	0
4/11	3RD READING CONCURRED	50	0
	RETURNED TO HOUSE		
4/15	SIGNED BY SPEAKER		
4/16	SIGNED BY PRESIDENT		
4/16	TRANSMITTED TO GOVERNOR		
4/21	SIGNED BY GOVERNOR		
	CHAPTER NUMBER 580 EFFECTIVE DATE: 7/01/87		

HB 902 INTRODUCED BY HARP, ET AL.
INCOME TAX REVISION AND FUNDING FOR SCHOOLS

3/26	INTRODUCED		
3/26	REFERRED TO TAXATION		
3/26	FISCAL NOTE REQUESTED		
4/03	FISCAL NOTE RECEIVED		
4/06	TABLED IN COMMITTEE		

HB 903 INTRODUCED BY GRINDE, ET AL.
RELOCATE THE LAW ENFORCEMENT ACADEMY TO LEWISTOWN

3/27	INTRODUCED		
3/27	REFERRED TO APPROPRIATIONS		
3/27	FISCAL NOTE REQUESTED		
3/28	FISCAL NOTE RECEIVED		
3/30	HEARING		
3/30	TAKEN FROM COMMITTEE	52	44
4/01	2ND READING PASSED AS AMENDED	49	48
4/01	3RD READING PASSED	54	43
	TRANSMITTED TO SENATE		
4/03	REFERRED TO STATE ADMINISTRATION		
4/06	REREFERRED TO LONG-RANGE PLANNING		
4/10	HEARING		
4/14	ADVERSE COMMITTEE REPORT ADOPTED AS AMENDED	34	13
4/15	RETURNED TO HOUSE NOT CONCURRED AS AMENDED		

HB 904 INTRODUCED BY HARP, ET AL.
INCOME TAX REVISION TO FUND EDUCATION

3/27	FISCAL NOTE REQUESTED		
3/28	INTRODUCED		
3/28	REFERRED TO RULES		
3/28	REREFERRED TO APPROPRIATIONS		
3/30	HEARING		
3/30	COMMITTEE REPORT--BILL PASSED AS AMENDED		
3/30	FISCAL NOTE RECEIVED		
4/01	2ND READING PASSED	57	43
4/01	3RD READING PASSED	57	43
	TRANSMITTED TO SENATE		
4/03	REFERRED TO TAXATION		
4/07	HEARING		
4/13	COMMITTEE REPORT--BILL CONCURRED AS AMENDED		
4/13	2ND READING CONCURRED	33	17
4/13	3RD READING CONCURRED	28	22

RETURNED TO HOUSE WITH AMENDMENTS
4/24 2ND READING AMENDMENTS CONCURRED 58 41
4/24 3RD READING AMENDMENTS CONCURRED 61 39
4/28 SIGNED BY SPEAKER
5/01 SIGNED BY PRESIDENT

5/01 TRANSMITTED TO GOVERNOR
5/22 SIGNED BY GOVERNOR
CHAPTER NUMBER 666
SECTIONS 1-7, 9-12 -- EFFECTIVE DATE: 5/22/87
SECTION 8 -- EFFECTIVE DATE: 7/01/87

HB 905 INTRODUCED BY WINSLOW, ET AL.
PROMOTE ECONOMIC DEVELOPMENT THROUGH INVESTMENT IN NEW TECHNOLOGY

3/27 INTRODUCED
3/27 REFERRED TO APPROPRIATIONS
3/30 HEARING
3/30 COMMITTEE REPORT--BILL PASSED
4/01 2ND READING PASSED 92 6
4/01 3RD READING PASSED 92 4

TRANSMITTED TO SENATE
4/03 REFERRED TO BUSINESS & INDUSTRY
4/08 HEARING
4/09 TABLED IN COMMITTEE

HB 906 INTRODUCED BY RAMIREZ, ET AL.
APPROPRIATING SALES AND USE TAX REVENUE; OTHER APPROPRIATIONS TO DEPARTMENT OF REVENUE FOR ADMINISTRATION

3/27 INTRODUCED
3/27 REFERRED TO APPROPRIATIONS
3/27 FISCAL NOTE REQUESTED
3/28 HEARING
3/28 COMMITTEE REPORT--BILL PASSED AS AMENDED
4/01 2ND READING PASSED AS AMENDED 65 32
4/01 3RD READING PASSED 71 25

TRANSMITTED TO SENATE
4/03 REFERRED TO TAXATION
4/04 FISCAL NOTE RECEIVED
4/08 HEARING
4/11 COMMITTEE REPORT--BILL CONCURRED AS AMENDED
4/14 2ND READING CONCURRED AS AMENDED 35 11
4/14 3RD READING CONCURRED 32 18

RETURNED TO HOUSE WITH AMENDMENTS

DIED IN PROCESS

HB 907 INTRODUCED BY COBB
IMPLEMENTING THE JOB TRAINING PARTNERSHIP ACT

3/30 INTRODUCED
3/30 REFERRED TO APPROPRIATIONS
3/31 TABLED IN COMMITTEE

HB 908 INTRODUCED BY KEENAN
REQUIRE PAYMENT OF PREVAILING WAGES TO PROFESSIONAL STAFF AT INSTITUTIONS

Form BD-15

In compliance with a written request, there is hereby submitted a Fiscal Note for HB904, as amended.

DESCRIPTION OF PROPOSED LEGISLATION:

An act to revise the Montana individual income tax system, to increase the contribution to state equalization, and to adjust the foundation program schedules for elementary schools and high schools for the purpose of balancing the fiscal 1988-89 general fund budget; to appropriate funds for equalization aid for schools; and providing effective dates, a retroactive applicability date, and a termination date.

ASSUMPTIONS:

1. The Revenue Estimating Advisory Council's estimates provide the basis for comparison, unless otherwise noted.
2. Individual income tax collections will be $208,088,000 in FY88 and $229,991,000 in FY89. (REAC)
3. The proposed rate table will raise an additional $5,700,000 a year over current law estimates. The proposed $3,600 retirement exclusion reduces the additional revenue to $500,000 each year. (DOR)
4. The 10% surtax will raise $25,450,875 in FY88 and $18,981,634 in FY89.

FISCAL IMPACT:

Revenues:	FY88			FY89		
	Current Law	Proposed Law	Difference	Current Law	Proposed Law	Difference
Individual Income Tax	$208,088,000	$234,038,875	$25,950,875	$229,991,000	$249,472,634	$19,481,634
Fund Information:						
State General Fund	$133,176,320	$128,935,625	($ 4,240,695)	$147,194,240	$137,918,073	($ 9,276,167)
School Equalization	52,022,000	70,449,362	18,427,362	57,497,750	75,357,298	17,859,548
Debt Service Fund	22,889,680	22,153,888	(735,792)	25,299,010	23,697,263	(1,601,747)
Windfall Reserve Fund	0	12,500,000	12,500,000	0	12,500,000	12,500,000

David L. Hunter DATE 3/30/87
DAVID L. HUNTER, BUDGET DIRECTOR
Office of Budget and Program Planning

DATE
JOHN HARP, PRIMARY SPONSOR

Fiscal Note for HB904, as amended.

HB 904

OPPONENTS:

Frank Defanso, Chief of Police in Sidney stated concern regarding the distance they would have to travel to Dillon. This would be 515 miles from Sidney. The academy should not be relocated at all.

QUESTIONS:

Rep. Miller said the indoor firing range is dangerous and there are some set backs regarding indoor ranges versus outdoor ranges.

Bill Westfall, Administrator for the Law Enforcement Academy said temporary situations were not the way to go.

HB 905:

(116:B:25.18) Rep. Winslow presented HB 905 to the committee saying it was the bill which was put together for the research and development grant program handled by the Science and Technology Board. It would call for funds that would go to the universities for research and development. It is called the fund for the future. The aspect is an emphasis on basic industries. This is part of HB 862 and if HB 862 fails this bill would as well.

EXECUTIVE ACTION HB 905:

(116:B:29.14) Rep. Quilici moved to DO PASS HB 905. Rep. Peck called the question. Rep. Devlin voted NO. The motion CARRIED.

HB 904: (116:B:34.30)

Rep. Harp, HD #7 presented the bill to the committee which is a bill to fund the foundation program. He presented amendments (Exhibit 11) which would put the foundation program at zero and zero.

PROPONENTS:

(116:B:37.05) Mr. Ed. Argenbright, State Superintendent of Public Instruction spoke in favor of the zero and zero for the foundation program. This bill will go a long way in meeting that goal which he believes is critical to maintaining the kind of school system that we are going to have to have if we are going to pull out of this difficult time.

Claudette Morton, Executive Secretary of the Board of Public Education also spoke in support of the bill.

Mr. Bruce Moerer representing the Montana School Boards Association, supported the bill saying the zero and zero is necessary as the minimum the schools can live with for the next biennium.

Phil Campbell, Montana Education Association supported the amended portion of the bill.

Terry Minnow, Montana Federation of Teachers supported the bill with the amendments.

Jess Long also supported the bill.

OPPONENTS:

Speaker Bob Marks HD#75 stated that he opposed the bill for two reasons. First he stated he was opposed to the amendment which was offered to raise the foundation schedule above what the introduced bill is. He supported the amended version for the amendment only to make it a -1 and -2. He stated that there is no fiscal note on the bill. This is a major tax issue and should have a joint hearing with the Taxation Committee.

(117:A:1.53) Alve Thomas, Montana Retired Teachers Association spoke in opposition to the bill and presented written testimony for the record (Exhibit 12).

Mr. Tom Ryan, Retired Teacher, said that the taxation portion of this bill should be heard in the taxation committee.

Rep. Jack Ramirez opposed the bill saying it was one of the most unfair procedures that they have ever gone through because this was not heard in the taxation. He complained about what the Rules Committee had done in saying this was an entirely different bill which it is not. He stated if this should pass, he intended to file a lawsuit to try to stop it. He stated it had major changes to the tax structure and many people would be harmed by it.

(117:A:8.40) Rep. Dean Switzer spoke as an opponent to the bill as well as Rep. Dennis Rehberg, Rep. Bernie Swift, and Rep. Larry Menke.

Mr. Joe Upshaw of the AARP, stated they opposed the bill and would have liked more time to be able to speak on it.

Gary Carlson representing the CPA's stated they opposed the bill because there was no public hearing on the bill in its present form. He presented written testimony (Exhibit 13).

He strongly urged to have a joint hearing in taxation to get this done.

QUESTIONS:

Chairman Donaldson asked Speaker Marks how they were going to resolve the issue. Are we going to be able to handle this type of legislation so that we indeed send to the Senate at least the tools to try to put together a balanced budget for this state, or are we destining ourselves to a special session by not passing it because virtually every issue that we have talked about, we have not gotten any where near two-thirds, we are lucky to 52-53 votes? He asked the Speaker to overview where he thought they were going to go as far as getting this resolved.

Speaker Marks stated he was most concerned about the response that they will get from the public. The sales tax bill went through in the House with no referendum in it. He said the Senate has interest in putting one in, if the bill passes at all. His concern is that if they ask for legislation such as is in HB 904, there will be such a public outcry. The people who are here are people from all levels of interest who are concerned about this bill. More time should be taken to listen to these concerns. The most important thing is to try to do something correct here as correct as possible. Pushing this bill through is not the correct thing.

Reps. Quilici supported the bill just as a tool which is needed to try to balance the budget. Rep. Bardanouve also agreed something had to be done.

(117:B:1.01) Rep. Harp talked of the amended bill regarding the federal deductible and stated that all of the tools are in the bill to balance the budget. Not all of them need to be used but at least they are there if they are needed.

EXECUTIVE ACTION: (117:B:16.39)

HB 903,894,895: Rep. Switzer moved to DO PASS HB 903. Rep. Bardanouve moved to TABLE all of the proposals for this session; HB 894, 895, and 903. There was a roll call vote. Reps. Donaldson, Winslow, Bardanouve, Bradley, Connelly, Devlin, Manuel, Menke, Nathe and Switzer voted YES. Reps. Iverson, Menahan, Miller, Poulsen, Quilici, REhberg, Spaeth and Swift voted NO. The motion CARRIED 10 to 8.

Rep. Menahan moved to draft a resolution that a study by out of state people be conducted regarding the Law Enforcement Academy, selected by the governor to look at this situation and the governor will make the choice where it will be

located because the legislature wouldn't do it. Rep. Quilici called the question. Reps. Menahan, Quilici Connelly voted YES. The motion FAILED.

HB 904:

Rep. Peck moved to approve the amendments. Rep. Quilici called the question. Reps. Iverson, Nathe, Switzer, and Iverson voted NO. The motion CARRIED.

Rep. Winslow passed out some amendments (Exhibit 14) which he asked Mr. Jim Lear from the Legislative Council to explain to the committee. Rep. Devlin called the question. Rep. Menahan voted NO. The motion CARRIED.

Rep. Peck moved to Do PASS HB 904 AS AMENDED. There was a roll call vote. Reps. Donaldson, Winslow, Bardanouve, Bradley, Connelly, Manuel, Menahan, Miller, Peck, Poulsen, Quilici and Spaeth voted YES. Reps. Devlin, Iverson, Menke, Nathe, Rehberg, Swift and Switzer voted NO. The motion CARRIED 12 to 7.

HB 901 HEARING AND EXEC ACTION:

Rep. Rehberg moved to DO PASS HB 901 to take general fund out of the ARMS. Rep. Bardanouve called the question. The motion CARRIED unanimously.

HB 884:

Rep. Clyde Smith presented the bill to the committee which puts one-half of one percent payroll tax on all employers in the state of Montana. He listed the alternatives (Exhibit 15).

Rep. Glaser spoke to the bill handing out a legal opinion from the Legislative Council and also amendments (Exhibits 16, 17). He stated there are there decisions that could be made: (1) let is crash by doing nothing; (2) positive cashflow until the next legislative session and make a decision then; and (3) you can fix the plan. He explained the plans to the committee and he stated that the amendments are for if the committee decides to assess a payroll tax to help the cashflow for two years, and then pick percentages if you wish.

(118:A:0.56) Rep. Jerry Driscoll supported the bill saying that the state savings in SB 315 to be between 18 and 22 percent. The Legislative Auditor did a schedule on the state loss of premium, how much would they have to lose before they run out of cashflow before the next session. If

DAILY ROLL CALL

APPROPRIATIONS COMMITTEE

50th LEGISLATIVE SESSION -- 1987

Date 3/30/87

NAME	PRESENT	ABSENT	EXCUSED
DONALDSON, GENE Chairman	✓		
THOFT, REP. BOB Vice Chair			✓
WINSLOW, REP. CAL	✓		
BARDANOUVE, FRANCIS	✓		
BRADLEY, DOROTHY			
CONNELLY, MARY ELLEN	✓		
DEVLIN, GERRY	✓		
IVERSON, DENNIS	✓	late	
MANUEL, REX	✓		
MENAHAN, RED	✓		
MENKE, LARRY	✓		
MILLER, RON	✓		
NATHE, DENNIS	✓		
PECK, RAY	✓		
POULSEN, HAROLD	✓		
QUILICI, JOE	✓		
REHBERG, DENNIS	✓		
SPAETH, GARY	✓		
SWIFT, BERNIE	✓		
SWITZER, DEAN	✓		

CS-30

ROLL CALL VOTE

HOUSE APPROPRIATIONS COMMITTEE

DATE 3/30/87 BILL NO. House Bill NUMBER 904

NAME	AYE	NAY
Rep. Gene Donaldson, Chairman	✓	
Rep. Bob Thoft, Vice Chairman	—	
Rep. Cal Winslow, Vice Chairman	✓	
Rep. Francis Bardanouve	✓	
Rep. Dorothy Bradley	✓	
Rep. Mary Ellen Connelly	✓	
Rep. Gerry Devlin		✓
Rep. Dennis Iverson		✓
Rep. Rex Manuel	✓	
Rep. Red Menahan	✓	
Rep. Larry Menke		✓
Rep. Ron Miller	✓	
Rep. Dennis Nathe		✓
Rep. Ray Peck	✓	
Rep. Harold Poulsen	✓	
Rep. Joe Quilici	✓	
Rep. Dennis Rehberg		✓
Rep. Gary Spaeth	✓	
Rep. Bernie Swift		✓
Rep. Dean Switzer		✓

TALLY CARRIED 12 7

Denise Thompson
Secretary

Rep. Gene Donaldson
Chairman

MOTION: Rep. Peck moved to DO PASS HB 904 AS AMENDED.

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EXHIBIT 16
DATE 3/30/87
HB H.B 904

STANDING COMMITTEE REPORT.

_____ 19____

Mr. Speaker: We, the committee on _____

report _____

☐ do pass
☐ do not pass

☐ be concurred in
☐ be not concurred in

☐ as amended
☐ statement of intent attached

_____
Chairman

1. Title, line 16.
   Strike: "20-9-316 THROUGH"
   Insert: "20-9-318,"

2. Page 68 line 7 through page 71, line 6.
   Strike: sections 38 and 39 in their entirety
   Renumber subsequent sections

3. Page 71, line 9.
   Strike: "1988-89"
   Insert: "1987-88"

4. Page 71, line 10.
   Strike: "1988-89"
   Insert: "1987-88"

5. Page 71, line 13.
   Strike: "$19,558"
   Insert: "$20,158"

6. Page 71, line 16.
   Strike: "$19,558"
   Insert: "$20,158"

7. Page 71, line 17.
   Strike: "$817.30"
   Insert: "$842.50"

8. Page 71, line 21.
   Strike: "$32,057"
   Insert: "$33,042"

9. Page 71, line 22.
   Strike: "$817.30"
   Insert: "$842.50"

10. Page 71, line 25
    Strike: "$26,914"
    Insert: "$27,741"

11. Page 72, line 1.
    Strike: "$817.30"
    Insert: "$842.50"

12. Page 72, line 4.
    Strike: "$42,970"
    Insert: "$44,290"

13. Page 72, line 5.
    Strike: "$511.90"
    Insert: "527.60"

14. Page 72, line 12
    Strike: "$1,899"
    Insert: "$1,957"
    Strike: "$1.84"
    Insert: "$1.90"

15. Page 72, line 16.
    Strike: "$1,788"
    Insert: "$1,843"

16. Page 72, line 17.
    Strike: "$1.69"
    Insert: "$1.74"

17. Page 72, line 20.
    Strike: "$1,451"
    Insert: "$1,496"

18. Page 73, line 5.
Strike: "1988-89"
Insert: "1987-88"

19. Page 73, line 6.
Strike: "1988=89"
Insert: "1987-88"

20. Page 73, line 9.
Strike: "$111,422"
Insert: "$114,845"

21. Page 73, line 11.
Strike: "$4,643"
Insert: "$4,785"

22. Page 73, line 12.
Strike: "$25.32"
Insert: "$26.10"

23. Page 73, line 15.
Strike: "$4,237"
Insert: "$4,368"

24. Page 73, line 16.
Strike: "$25.32"
Insert: "$26.10"

25. Page 73, line 19.
Strike: "$2,718"
Insert: "$2,802"

26. Page 73, line 20.
Strike: "$4.24"
Insert: "$4.37"

27. Page 73, line 23.
Strike: "$2,295"
Insert: "$2,365"

28. Page 73, line 24.
Strike: "$2.33"
Insert: "$2.40"

29. Page 74, line 2.
Strike: "$2,062"
Insert: "$2,125"

30. Page 74, line 3.
Strike: "43"
Insert: "44"

31. Page 74, line 6..
Strike: "$1,933"
Insert: "$1,993"

32. Page 76, lines 22 and 25.
Strike: "43"
Insert: "41"

12

DATE 3/30/87

HB 904

Testimony given 3/30/87 to the House Appropriation Committee

Alve Thomas, Chairman Legislative Committee,
Montana Retired Teachers Association

We oppose the provision in H.B. 904 that would impose an income tax on state retirement benefits.

Montana's Teachers Retirement system was created in 1937 and amended in 1947 to make membership mandatory for all certified teachers and administrators in Montana public schools.

Both laws excluded all payments made to retired teachers from any state income tax. Many of our members contributed from 30 to 40 years since the bill was enacted under the assumption that pensions accrued would not be subject to a state income tax. We believe this is a contract that should not be abrogated.

In 1958 the question of the legality of taxing teacher retirement was addressed to the Montana Attorney General and I would like to read part of his official opinion.

I quote:

> The pensions, annuities, or any other benefits accrued or accruing to any person under the provisions of this act and the accumulated contributions and cash and securities in the various funds created under this act are hereby exempted from any state, county or municipal tax of the state of Montana, and shall not be subject to execution, garnishment, attachment by trustee process or otherwise, in law or equity, or any other process whatsoever and shall be unassignable except as in this act specifically provided."

He further states:

> In a word, it was the clear intent of the legislature

to maintain the benefits available under the act inviolate and undiminished and to insure them against the incursion of all extraneous claims. It is the clear intent we must adhere to and implement wherever and whenever possible.

I conclude, therefore, that payments made to retired teachers under the teachers retirement system are exempt from the state income tax and need not be reported as income for state income tax purposes.

Very truly yours,
FORREST H. ANDERSON
Attorney General

We believe that it is not ethical, moral or legal to tax those who are presently receiving state pensions.

The average payments to retired teachers this year is $542 dollars a month and the average length of time a retiree spent in Montana schools was 26 years. The retirement system does not have a cost of living adjustment, so many who retired 10 or 15 years ago have seen their purchasing power erode because of inflation. To tax away another 5% to their income would be totally unfair and unjust.

The Retired Teachers Association of Montana have not taken a position on all of H.B. 904 but recommends that the provisions in the bill to tax retirement benefits be deleted.

Thank you for your consideration.

EXHIBIT 13
DATE 3/30/87
HB 904

WITNESS STATEMENT

NAME Gary B Carlson BILL NO. 904
ADDRESS P.O. Box 1147 Helena DATE 3/30/87
WHOM DO YOU REPRESENT? MT Society of CPA's
SUPPORT _____ OPPOSE X AMEND _____
PLEASE LEAVE PREPARED STATEMENT WITH SECRETARY.

Comments:

This bill has not had adequate public hearing in its present form.

It is a significant shift of income tax burden within the individual tax payer (income) of Montana

14
DATE 3/30/87
HB 904

Amend House Bill No. 904, Introduced Copy

1. Page 19, line 2.
Strike: "and [section 10]"

2. Page 19, line 6 through line 3, page 22.
Strike: section 10 in its entirety

3. Page 76, lines 22 and 25.
Strike: "10, 13, and 43"
Insert: "9, 12, and 42"

4. Page 77, lines 9 and 11.
Strike: "45"
Insert: "44"

5. Page 77, line 13.
Strike: "22, 27"
Insert: "21, 26"

6. Page 77, line 14.
Strike: "37"
Insert: "36"
Strike: "44"
Insert: "43"

7. Page 77, line 16.
Strike: "23"
Insert: "22"
Strike: "26"
Insert: "25"

8. Page 77, lines 21 and 23.
Strike: "43"
Insert: "42"

jhl/e:hb904am.txt

MINUTES OF THE MEETING
TAXATION COMMITTEE
MONTANA STATE SENATE

April 7, 1987

The fifty-ninth meeting of the Senate Taxation Committee was called to order at 8:00 A.M. on April 7, 1987 by Chairman George McCallum in Room 413/415 of the Capitol Building.

ROLL CALL: All committee members were present.

CONSIDERATION OF HB 904: Representative Harp, House District 7, presented this bill to the committee. He said this bill revises the Montana income tax system and deals with the equalization of the school foundation program. It also provides for the windfall tax reform windfall reserve account. The main purpose of this bill is for simplication of the Montana system. Even though Montana income tax is below the national average, the perception is that because we have a high marginal rate, the premise follows that Montana has high taxes. This bill eliminates 10 brackets and puts them in 3 brackets, 4-6-8. One of the arguments and misunderstandings of the provisions of this bill is what the Federal Tax Reform Act did in October, 1986. This state has always coupled its policy with the federal tax system. Now that some of the cards have been reshuffled and the advantages we have enjoyed have changed, we no longer want to be tied to the federal government. We are sitting here today $100 million out of wack, and that includes all of the revenue that we are receiving from the windfall, which is some $76 million. By coupling with the federal government we are doing some good things for family, doubling the personal exemptions and the standard deduction for married withholding rises to $1200. What this bill does for two years is to place a surtax on, which raises $45 million. The effects of this bill, 55% of Montana households will receive a tax income reduction, 10% will see no change and 35% will experience increases. For the combined federal and state tax, 76% of all Montana households will receive a reduction and 15% will receive an increase. Fifteen percent will see a considerable increase because of what happens on the federal level with capital gains and passive loss. All retirees will be taxed equally with $3600 exempt from taxation.

PROPONENTS: Eric Feavor, Montana Education Assn., gave

testimony in support of this bill. This bill does provide significant income tax reform. It simplifies the income tax in this state, lowers and establishes new rates, retirement income is exempted and equalized at $3600 and does establish a surtax at 10%, which is dedicated to fund the foundation program or balance the budget. There is a $96 million appropriation for 0-0 funding of the foundation program. We are fearful of amendments and oppose any amendments that will restore loopholes and tax exemption, reduce the rates to 3-5-7, to make this a referendum issue, replace the surtax with a raid on the permanent coal trust and any amendment to appropriate less than $96 million to the foundation program. This bill balanced the budget but in no way does it answer the question of how we will deal with I-105. We can provide our school districts with the same amount of money they are getting now but we will have no ability to respond to the growing needs of our public schools in the state.

Bruce Moerer, representing the School Board Assn., gave testimony in support of this bill. This bill is critical to the foundation program for 0-0 funding and it is important that the appropriation be made to give funding. In looking around the state you will see what schools are going through just to remain constant. Teachers are being layed off and salary schedules frozen.

Earl Riley, representing the Montana Senior Citizens Assn., gave testimony in support of this bill. This bill appears to be a solution to a dilemma. Lets get this budget balanced and get on with what needs to be done. He would hope that the 10% surtax is sufficient.

Jesse Long, representing School Administrators of Montana, gave testimony in support of this bill. He supports this bill primarily to maintain the 0-0 foundation program schedules. It is critical that those schedules not be decreased in any manner or means. He supports the surtax so long as it is directed to the foundation program or in support of the schools. He is concerned with the taxing provision of the Teachers Retirment System benefits. The program already doesn't take adequate care of retired administrators and now the tax will be paid on that sum of money. We oppose amendments that would raid the education trust fund.

Don Judge, representing the Montana State AFL-CIO, gave testimony in support of this bill. A copy of his written statement is attached as Exhibit 1.

Barbara Archer, representing the Women's Lobbyist Fund, furnished written testimony in support of this bill, attached as Exhibit 2.

Leo Barry, representing the Association of Montana Retired Public Employees, gave testimony in support of this bill. This bill has some good points and some bad points. It is clear something must be done at the state level to react to the Federal Tax Reform. His particular interest is with the retirement benefits. Public employee retirement benefits have been before this committee twice, in SB 307 and SB 74. When retirement benefits were originally exempted for taxation, public policy was that they would try to hire, attract and keep good people in public service. Salaries were not high then in comparison to the private sector. One of the benefits was to exempt them from income taxes. We have a number of people who entered the system and retired on the assumption that their benefits would not be taxed. He would suggest that those people who entered the system and retired on that assumption, be grandfathered.

Terry Minow, representing the Federation of Teachers and the Montana Federation of State Employees, gave testimony in support of this bill. She supports this bill as it does providing funding for public schools and it is a way to balance the budget. As an advocate for public schools, 0-0 for the foundation program is the minimum that this state can afford and even with 0-0 many schools in the state will suffer, especially if the provisions of I-105 are in place. She supports this bill because it does make our tax system more fair, something that this state needs in order to be able to provide adequate funding for schools and other state services.

Representative Kadas, House District 55, gave testimony in support of this bill. This has been a bipartisan bill in the House. People have seen this bill as essential to both the economic development and fairness in Montana taxation and essential to Montana to balance the budget this biennium. This bill ties in with federal reform so that taxpayers who have to pay federal tax will be paying state tax. Taxpayers who don't have to pay federal tax will not have to pay state tax. It simplifies our income tax system dramatically. It does a lot for economic development and lowering the marginal rate.

John LaFaver, Director, Department of Revenue, gave testimony in support of this bill. Up until 2-3 weeks ago he thought that it was a sure thing that this

legislature would pass meaningful tax reform. HB 904 is probably the last chance that the legislature has to pass meaningful tax reform in this legislature. This is the same bill that the subcommittee worked hard on and is in the same form that came out after all of the subcommittee's work, with two major exceptions, the AMT has been taken out, Mr. LaFaver would advocate that be reinstated, and there is a surcharge that has been added. He has heard of some amendments that were proposed in the newspaper by Senator Aklestad and he has analyzed those and provided the committee with some comparison, which are attached as Exhibit 3. The first chart shows the effective tax rates at various income levels under HB 904 and the bill as proposed by Senator Aklestad, represented by SROP. He proposes using the 4-6-8 rates but then would keep the deduction on federal income tax at $6,000 for joint returns and $3,000 for single and would reinstate the 60% capital gains exclusion so that Montana would be unique in the way they handle capital gains. The charts show what you would expect with this type of proposal

Ken Perez, representing the Montana Alliance for Progressive Policy, gave testimony in support of this bill. A copy of his written statement is attached as Exhibit 4.

OPPONENTS: Dennis Burr, representing the Montana Taxpayers, gave testimony in opposition to this bill. This is the last vehicle you have to get some money to balance the state budget, according to John LaFaver, and it has become high priority. It is disappointing to him that people have the concept that this is the method, we can balance the budget and leave Helena without providing any meaningful tax reform. You have heard this is a method of ability to pay not of using revenue to fund state government. Take a close look at the bill, does progressivity mean that you pay a larger percentage of tax on income taxes. There were 10 brackets to reach $35,000 and then a flat proposal after that. With this we will reduce that to 3 brackets and reach the maximum bracket at $12,000. Montana income tax will be regressive compared to what it has been in the past. Montana is 24th in rating in income tax among the 50 states, this bill will easily put us in the top 10.

William E. Spahr, Great Falls, gave testimony in opposition to this bill. A copy of his written testimony in attached as Exhibit 5.

George Anderson, CPA from Helena, representing MONTREC, gave testimony in opposition to this bill. Our objective is that we should have fair taxation in the state and should have something to encourage economic development, something that helps the state and does not hinder it. Montana needs to attract large investment and expand our tax base. We have large amounts of natural resources, low energy costs, high labor productivity, good educational system and excellent living conditions. All of this should be attracting business and not hindering it. Our problem is because of our business climate. If business does come to the state and is successful, we proceed to tax it out of business. How do you create a better business climate, you allow business to make a profit. Taxes are the second or third largest expense that business has. This bill reduces the tax base, it does not increase it, it shifts the burden to the upper income groups. He would not call it progressive, he would call it aggressive. Simplification is good but you have to be careful with simplification because sometimes it is not fair. We must get from this legislature a balanced and reformed tax system. We must have a broader base. If HB 904 passes in its present form, we will go out and get 15% of the taxpaying electorate of this state to sign petitions to put HB 904 on the ballot.

Gary Carlson, CPA on behalf of the Montana Society of CPA's, gave testimony in opposition of this bill. A copy of his written statement is attached as Exhibit 6.

George Allen, representing the Montana Retail Assn., gave testimony in opposition of this bill. He questioned how much of a tax increase we are really talking about. He opposes this bill for the reasons that have been presented and for the fact that they haven't been up-front on how much we are really increasing the taxes.

Alve Thomas, a retired teacher, gave testimony in opposition to this bill. He furnished the committee with an amendment that would grandfather retirees retired on or after January 1, 1988, attached as Exhibit 7.

Robert N. Helding, representing the Montana Association of Realtors, gave testimony in opposition to this bill. We do not think this bill leads to economic reform or tax reform and does not address or answer I-105. This bill, with the income tax increases, will help change the economic situation, it will destroy it.

Joe Upshaw, representing American Association of Retired Persons of Montana, gave testimony in opposition to this bill. This bill contains a serious injustice to the

people who have already retired in the state. This bill should be grandfathered to take into consideration people who are already retired.

Mons Teigen, representing the Montana Stockgrowers and Cattlewomen, gave testimony in opposition to this bill. His written statement is attached as Exhibit 8.

Lorna Frank, representing the Montana Farm Bureau, gave testimony in opposition to this bill. A sales tax, along with this measure, will raise Montana taxation 288%.

Judy Rolfe, representing herself as an independent business woman from Bozeman, gave testimony in opposition to this bill. Business in this state cannot afford any more of these types of taxation procedures.

Tom Ryan, representing himself as a retired teacher and a member of the Retired Teachers Board, gave testimony in opposition of this bill. He is working for 2400 retired citizens who are still around and trying to get by on their pensions. This was a pact they had with the state of Montana for exempt retirement benefits.

Irvin Delhinger stood in opposition to this bill.

QUESTIONS FROM THE COMMITTEE: Senator Crippen referred to Gary Carlson's testimony in reference to the main street druggist. He asked John LaFaver if he would consider that individual a wealthy individual.

John LaFaver said he does not think anyone has said that the tax increase in HB 904 is for the wealthy. The increase that you will find in HB 904 and SB 307, or those that would pay a higher tax, are those that are now paying below average tax rates from people earning the same amount. There are people in relatively low income levels who will be paying more and that is because they are now paying lower than the average taxes.

Senator Crippen asked Gary Carlson to respond.

Gary Carlson said this druggist does not have any passive losses, capital gains or investments. He said he would furnished the committee with the specific information and that is provided in Exhibit 6.

Senator Halligan said to Gary Carlson you have mentioned your opposition to an alternative minimum tax. There still will be people in the system that will pay no tax.

Gary Carlson said the new changes brought about by tax reform has caused a situation that the taxpayers do not clearly understand, nor the tax preparers, on the impact of the AMT.

Senator Halligan said if we kill this bill then we just allow some form of federal pass through and do not reach the goal of equity and fairness. Shouldn't we make sure that the effective rates people are paying in Montana are progressive, where now they are not.

Gary Carlson said if you take the graphs that the Department of Revenue produced, 60% of the taxpayers pay 95% of the tax. Fifty percent of the filers below $20,000 will be paying 5% of the income tax in the state of Montana.

Senator Mazurek asked John LaFaver what would be the impact of grandfathering the existing retirees with full exemption and putting $3600 on for future retirees.

John LaFaver said the fiscal impact would be the same as in SB 74.

Senator Mazurek asked Gary Carlson if your principal objection on this structure is on the rates, how would you change it.

Gary Carlson said he would broaden the brackets up to $18,000 and make the rates 1-3-5, and would broaden the margins enough to provide revenue that would equal current tax law. He would be up front with the taxpayer that from this point we have got our tax simplification piggybacked to the federal law and then we need to have x amount of surtax to meet our expenditure growth.

Senator Crippen said you would not have the capital gains or the deduction for federal income tax. Those would be eliminated.

Gary Carlson said as presented in HB 904, those would be eliminated.

Representative Harp closed.

ROLL CALL

TAXATION COMMITTEE

50th LEGISLATIVE SESSION -- 1987 Date 4-7-87

NAME	PRESENT	ABSENT	EXCUSED
SENATOR CRIPPEN	✓		
SENATOR NEUMAN	✓		
SENATOR SEVERSON	✓		
SENATOR LYBECK	✓		
SENATOR HAGER	✓		
SENATOR MAZUREK	✓		
SENATOR ECK	✓		
SENATOR BROWN	✓		
SENATOR HIRSCH	✓		
SENATOR BISHOP	✓		
SENATOR HALLIGAN, VICE CHAIRMAN	✓		
SENATOR McCALLUM, CHAIRMAN	✓		

Each day attach to minutes.

DATE April 7, 1987

COMMITTEE ON Senate Taxation

VISITORS' REGISTER HB 904

NAME	REPRESENTING	BILL #	Check On Support	Op
William E. Bill Leahy	Self	HB 904		
Genevieve S. Adair	Retired Teachers	904		
Eric Feaver	MEA	904	✓	
Don Judge	MT STATE AFL-CIO	HB 904	X	
Alve Thomas	Retired Teachers			
Roy Kallin	Retired Teachers			
Carol Mosher	Mt. Cattle Women	HB 904		
Judith F. Rose	Mont. Automobile Dlr.	HB 904		
EARL J. KELLY	M.S.C.A.	904	✓	
Mons Teigen	Mt Stockgrowers Assn	904		
Ted Rollins	Self	904		
[illegible]	Montana Ass. Realtors	904		
Les Berry	Ass of Mt. Retired Public Em.		Amend	
Janelle Fallan	Mt Petroleum	904		
Lorna Frank	Mt. Farm Bureau	904		
J. Brunner	Montana Coalition Cancer	904		
Alan Arnold	Montana Lutheran Synod	904	✓	
George Allen	Mt. Retired Comm	904		
Gary B. Carlson	MT Society CPA's	904		
Tom Keegan	Seniors/Ret Teachers	904	Amend	
Bob Corrca	Bozeman Chamber of Comm	904		
Ray Shackleford	OPI	904	✓	
Bruce W. Moerer	MSBA	904	✓	
Tom Endicott	MBMDA	904		
[illegible]	SAM	904	✓	
[illegible]	AAIP	904		

(Please leave prepared statement with Secretary)

DATE April 7, 1987

COMMITTEE ON Senate Taxation

VISITORS' REGISTER HB 904

NAME	REPRESENTING	BILL #	Check One	
			Support	Oppose
YELDING	MT. ASSOC OF REALTORS	904		
T. Anderson	Mont. Taxpayers Assoc	904		
CADBY	MT BANKERS ASSOC	904		
. D Anderson	Montrec & Mont MT Comp Com	904		
e Holland	MT Society of CPA's	904		
y D Bruno	Leg Asst. To Pres. Senate	904		
ie Hacker	Msla Co. Freeholders	904		X
n Hardan	Montana Motor Carriers Assn	904		
NIS BURR	MONTAX	904		X
K CAHNEY	Glendive Forward	904		X
ubette Morton	Board of Public Education	904	X	
ry Mihow	MT Ed Teachers	904	X	

(Please leave prepared statement with Secretary)

NAME: J. Hacker DATE: 4-7-87

ADDRESS: 1R Bonner

PHONE: 244-5521

REPRESENTING WHOM? Missoula Co. Truckdrivers Assn

APPEARING ON WHICH PROPOSAL? HB904

DO YOU: SUPPORT? _____ AMEND? _____ OPPOSE? X

COMMENTS: Montana business can't afford the tax. We are asking for tax relief not increased tax burdens. Make this state a proper place to do business by reducing the burden.

We suggest cuts in the budget at all levels and provision of services at a much lowered level. (If you want suggestions we would be happy to provide a list)

A tax is a tax whether its income tax, sales tax, property tax, gas tax, use tax, etc. and comes out of the pockets of the working, productive people and the few industries we have left.

Since this is a ~~do not pass~~

PLEASE LEAVE ANY PREPARED STATEMENTS WITH THE COMMITTEE SECRETARY.

P.S. It should be noted:
Those asking for increased taxes are the ones who will benefit from them—

MONTANA STATE AFL-CIO
APRIL 29 1956

Box 1176, Helena, Montana

JAMES W. MURRY
EXECUTIVE SECRETARY

ZIP CODE 59624
406/442-1708

TESTIMONY OF DON JUDGE BEFORE THE SENATE TAXATION COMMITTEE, APRIL 7, 1987 ON HOUSE BILL 904

- -

GOOD MORNING, MR. CHAIRMAN, MEMBERS OF THE COMMITTEE, FOR THE RECORD MY NAME IS DON JUDGE AND I AM HERE TODAY ON BEHALF OF THE MONTANA STATE AFL-CIO TO TESTIFY IN SUPPORT OF HOUSE BILL 904.

FOR THE PAST 77 DAYS, THIS BODY HAS BEEN GRAPPLING WITH CRITICAL CHOICES. HOW DO WE FUND STATE GOVERNMENT? HOW DO WE PROVIDE ESSENTIAL PUBLIC SERVICES? WHO IS GOING TO PAY FOR THESE SERVICES? HOW DO WE RAISE NEEDED TAX REVENUE WITHOUT ENACTING UNFAIR TAXATION?

OF ALL THE PROPOSALS BEFORE THIS BODY, WE BELIEVE THAT HB 904 IS THE REVENUE VEHICLE YOU SHOULD WORK WITH. OUR REASON IS SIMPLE: IT'S THE ONLY TAX REFORM PROPOSAL BEFORE YOU THAT IS PREDICATED ON AN INDIVIDUALS ABILITY TO PAY.

THE FEDERAL TAX R[illegible] FUNDAMENTAL NOTION OF TAX FAIRNESS. FOR YEARS, LOOPHOLES AND SPECIAL TAX BREAKS HAVE ALLOWED OUR WEALTHIEST CITIZENS AND LARGE CORPORATIONS TO PAY LITTLE OR NOTHING IN FEDERAL INCOME TAXES. IN FACT, SOME CORPORATIONS HAVE EVEN TAKEN A NET GAIN FROM FEDERAL TAXES PAID BY OTHERS!

FORTUNATELY, THE CONGRESS OF THE UNITED STATES, AFTER DECADES OF CATERING TO SPECIAL INTEREST GROUPS, FINALLY CRIED "ENOUGH!" AND IN A RARE BIPARTISAN DISPLAY, REFORMED OUR FEDERAL INCOME TAX CODES. THE TAX REFORM ACT OF 1986 LOWERED INDIVIDUAL TAX RATES. IT ALSO CLOSED MANY LOOPHOLES AND SELECTIVE TAX

SENATE TAXATION
EXHIBIT NO. 1
DATE 4-7-87
BILL NO. H.B. 904

PRINTED ON UNION MADE PAPER

BREAKS USED BY WEALTHY INDIVIDUALS AND LARGE CORPORATIONS TO SKIRT PAYING THEIR FAIR SHARE IN TAXES. IT HAS LOWERED TAX RATES FOR MOST OF US AND PLACED TAX AVOIDERS BACK ON OUR PAYROLL.

MEMBERS OF THE COMMITTEE, IT IS OUR FIRM BELIEF THAT HB 904 CLOSELY PARALLELS THE LETTER AND SPIRIT OF THE FEDERAL TAX REFORM ACT OF 1986. IT LOWERS STATE INCOME TAX RATES FROM A MAXIMUM OF 11 PERCENT DOWN TO 8 PERCENT. MOREOVER, IT CLOSES MANY LOOPHOLES, PARTICULARLY CAPITAL GAINS EXCLUSIONS, THAT HAVE BEEN USED FOR TAX AVOIDANCE. LIKE OTHERS, WE EXPECT THAT THERE MAY BE CERTAIN COMPONENTS OF HB 904 THAT WE MAY NOT BE PARTICULARLY FOND OF. BUT, IN THE WHOLE, WE BELIEVE THE BILL IS FAIR.

BECAUSE HB 904 PLACES A TEMPORARY, TWO YEAR, 10 PERCENT SURCHARGE ON INCOME TAXES, IT HAS BEEN LABELED BY OPPONENTS AS BEING ONE OF THE LARGEST TAX INCREASES IN MONTANA'S HISTORY. LADIES AND GENTLEMEN, THESE INDIVIDUALS ARE SIMPLY TWISTING THE FACTS.

HB 904 RECOGNIZES THAT MONTANA IS EXPERIENCING AN INTENSE, BUT HOPEFULLY, SHORT -TERM BUDGET SHORTFALL. THE BILL CALLS FOR A 10 PERCENT SURCHARGE TO RECOUP PART OF THIS BUDGET SHORTFALL. MOREOVER, THE SURCHARGE IS AUTOMATICALLY SUNSETTED AFTER TWO YEARS.

ON THE OTHER HAND, THE MAJORITY OF SPOKESMEN WHO STAND IN OPPOSITION TO THIS BILL ARE THE SAME PEOPLE WHO ARE CLAMORING FOR A GENERAL SALES TAX. UNFORTUNATELY, THESE INDIVIDUALS FAIL TO TELL YOU SOME VERY IMPORTANT ITEMS. THE FIRST IS THAT A GENERAL SALES TAX, AS OPPOSED TO EQUITABLE TAX REFORM EMBODIED IN HB 904, IS THE MOST REGRESSIVE FORM OF TAXATION IMAGINABLE. IT TURNS THE ABILITY TO PAY PRINCIPLE, EMBODIED BY THE FEDERAL TAX REFORM ACT, SQUARELY ON ITS HEAD.

THE SECOND OMISSION IS THAT A GENERAL SALES TAX, EVEN WITH PROPERTY TAX RELIEF, WOULD SIGNIFICANTLY INCREASE OVERALL TAXES FOR MOST OF OUR CITIZENS.

SENATE TAXATION
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WE'VE GIVEN YOU THOSE STATISTICS BEFORE.

FINALLY, THE 10 PERCENT SURCHARGE IS A TEMPORARY MEANS TO RAISE REVENUE. CONVERSELY, A GENERAL SALES TAX IS NOTHING LESS THAN A PERMANENT NEW LAYER OF TAXATION, WHICH WILL HIT ORDINARY MONTANANS HARDEST.

THE CHOICE IS YOURS. TAX REFORM OR CONTINUED TAX DEFORM. FAIR TAXATION OR REGRESSIVE TAXATION.

HB 904 IS THE REVENUE VEHICLE YOU CAN USE TO HELP SOLVE THIS STATE'S FISCAL CRISIS AND TO ENACT WISE AND FAIR TAX REFORM. WE URGE YOU TO SUPPORT HB 904 WITHOUT AMENDMENTS. THANK YOU.

SENATE TAXATION
EXHIBIT NO. 1
DATE 4-7-87
BILL NO. H.B. 904

WOMEN'S LOBBYIST FUND

Box 1099
Helena, MT 59624
449-7917

Testimony HB 904, Apr. 7, 1987, Senate Taxation Committee

Mr. Chairman and members of the committee:

My name is Barbara Archer. I represent the Women's Lobbyist Fund, a coalition of 39 groups and over 6500 individuals. The WLF supports HB 904.

A large proportion of WLF constituency are middle and low income women. With the declining economy, tax and economic policy has become very important to this constituency. Many aspects of HB 904 meet WLF guidelines of 1) fairness, 2) adequacy, and 3) reinvestment in Montana's economy.

HB 904 begins to close some taxation loopholes. Loopholes generally give the most breaks to the ones who have the most ability to pay and the most ability to generate new income to make up for the tax loss. HB 904 does this by eliminating the deduction for federal income taxes, which has most benefitted persons with the highest incomes.

We also support following the federal policy on capital gains, which this bill proposes.

With a 10% income tax surcharge, HB 904 generates revenue to adequately fund state and local government, which provides needed services for WLF constituency. A surcharge is generally temporary and has served well in the past to tide the state over rough economic times.

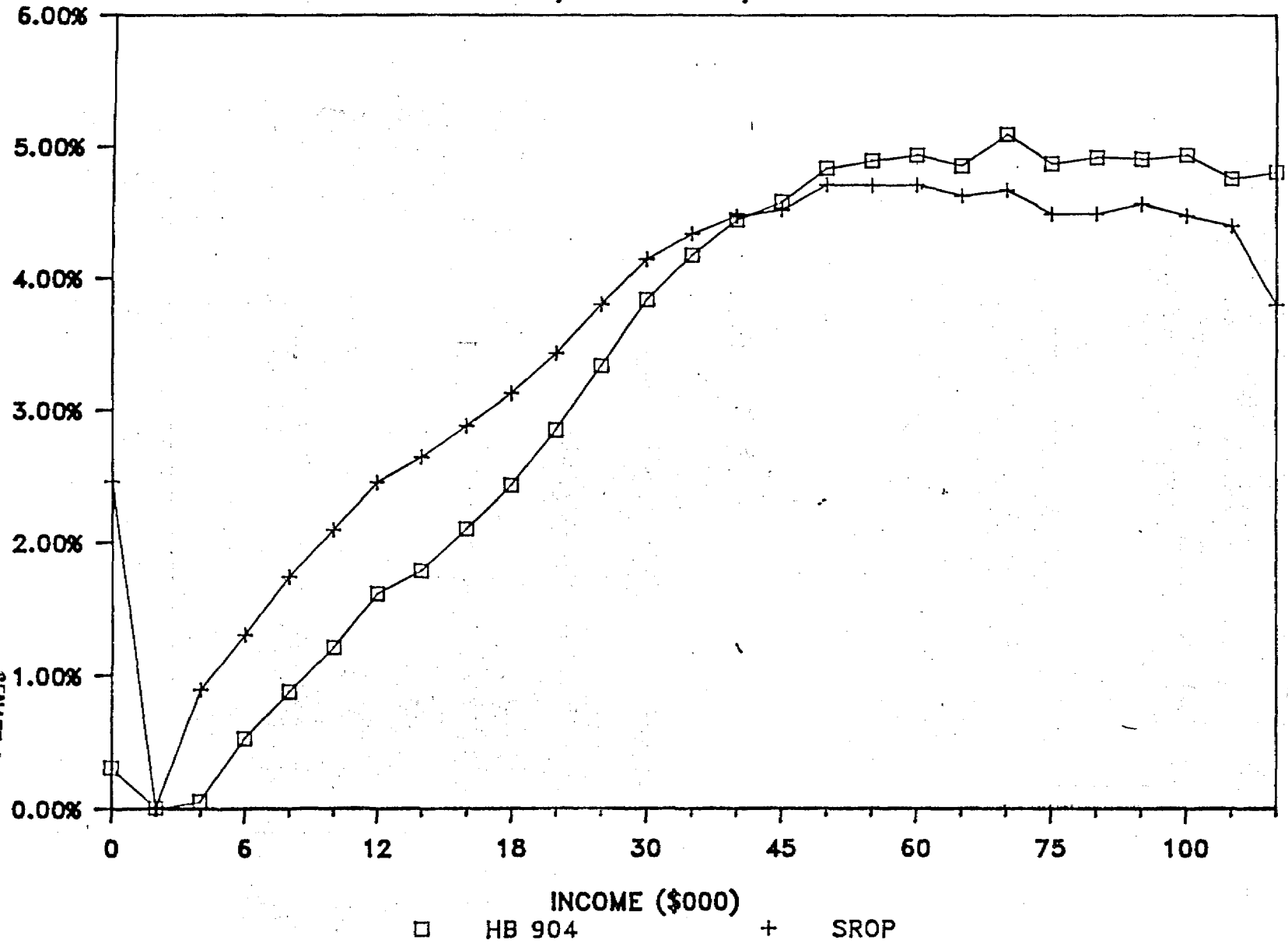
While this bill is not perfect, we find that it most nearly meets the needs of WLF constituency and the average taxpayers in Montana of any major tax legislation proposed thus far. We particularly ask you to support the three items mentioned, eliminating federal income tax deductions, following federal policy on capital gains, and the 10% income tax surcharge. We strongly urge support of HB 904.

Thank You.

SENATE TAXATION
EXHIBIT NO. 2
DATE 4-7-87
BILL NO. H.B. 904

Effective Tax Rates With Fed Offset

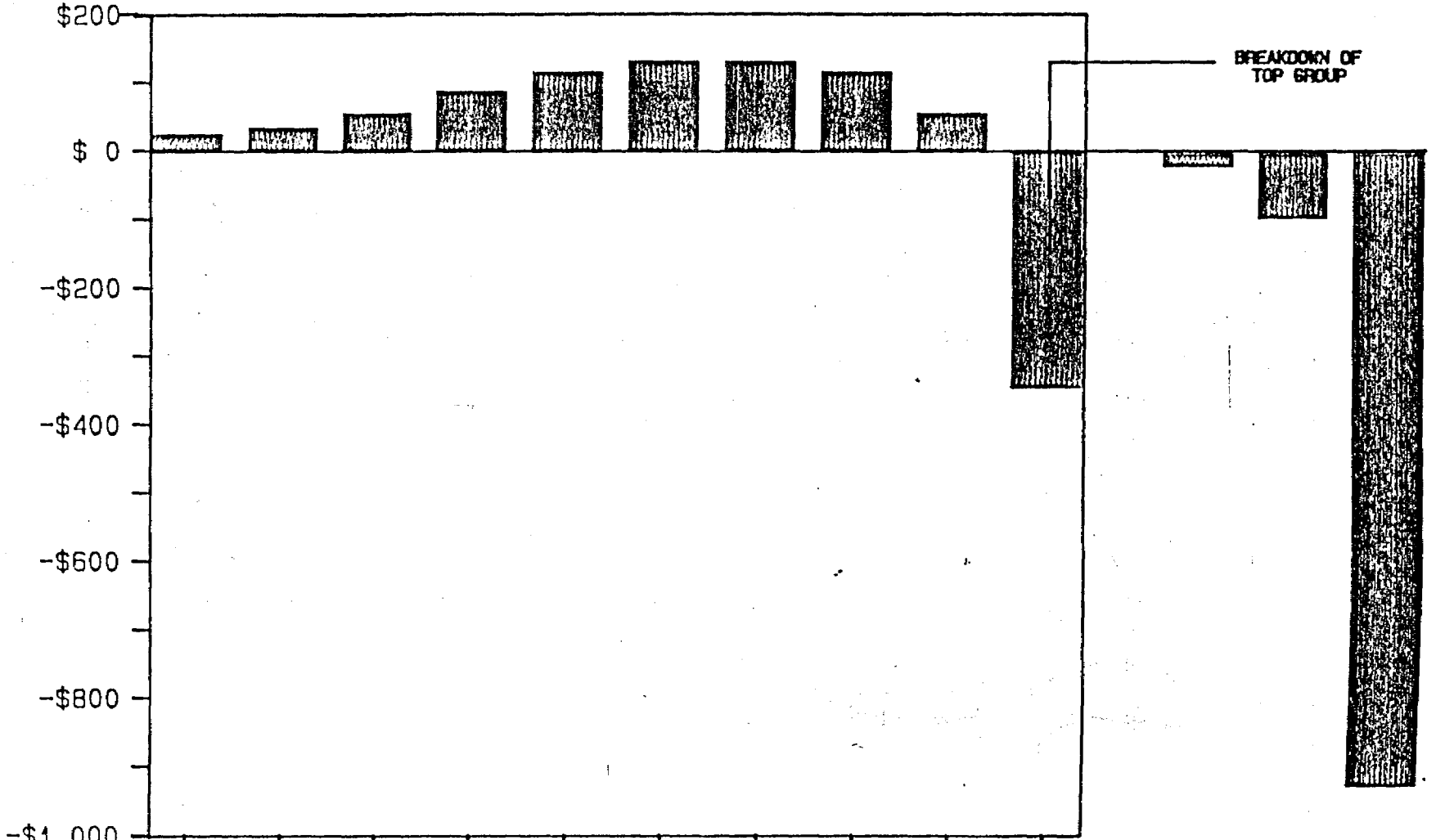
By Income Group



SENATE TAXATION
EXHIBIT NO. 3
DATE 4-7-87
BILL NO. H.B. 904

$ CHANGE IN STATE INCOME TAX

HB 904 to SROP

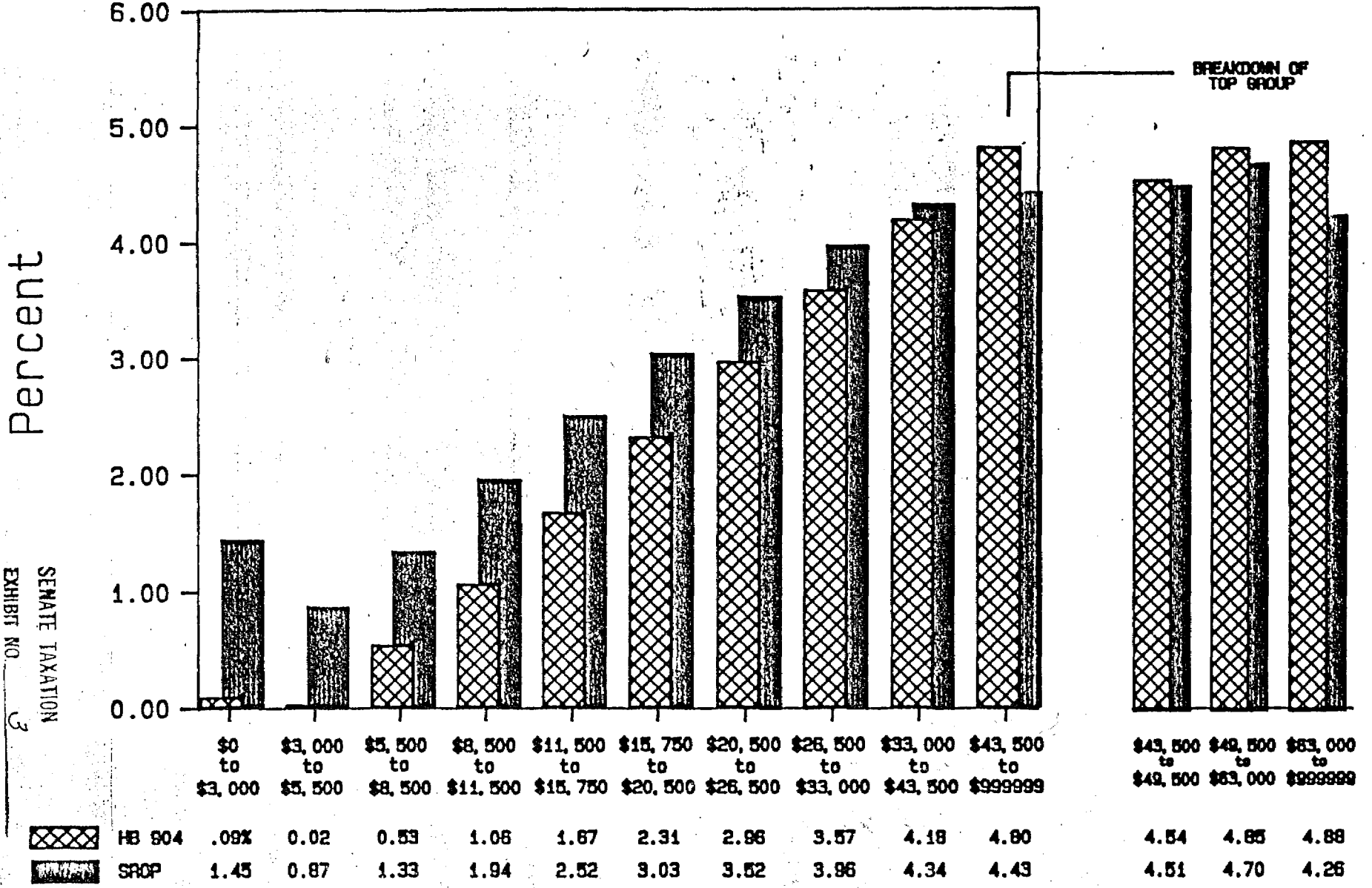


	$0 to $3,000	$3,000 to $5,500	$5,500 to $8,500	$8,500 to $11,500	$11,500 to $15,750	$15,750 to $20,500	$20,500 to $26,500	$26,500 to $33,000	$33,000 to $43,500	$43,500 to $999999	$43,500 to $49,500	$49,500 to $83,000	$83,000 to $999999
Average Change	$25.48	34.64	54.92	87.10	115.91	131.55	130.80	115.48	55.01	-347.31	-19.57	-95.75	-926.50

SENATE TAXATION
EXHIBIT NO. 3
DATE 4-7-87

EFFECTIVE TAX RATES

HB 904 to SROP (After Adjusting for Federal Offset)



	$0 to $3,000	$3,000 to $5,500	$5,500 to $8,500	$8,500 to $11,500	$11,500 to $15,750	$15,750 to $20,500	$20,500 to $26,500	$26,500 to $33,000	$33,000 to $43,500	$43,500 to $999999	$43,500 to $49,500	$49,500 to $63,000	$63,000 to $999999
HB 904	.09%	0.02	0.53	1.06	1.67	2.31	2.96	3.57	4.18	4.80	4.54	4.85	4.88
SROP	1.45	0.87	1.33	1.94	2.52	3.03	3.52	3.96	4.34	4.43	4.51	4.70	4.26

SENATE TAXATION
EXHIBIT NO. 3
DATE 4-7-87
11 R 604

TESTIMONY OF KEN PERES ON HB 904
MONTANA ALLIANCE FOR PROGRESSIVE POLICY

HB 904: INDIVIDUAL INCOME TAX REFORM

Mr. Chairman and members of the committee, my name is Ken Peres. I am an economist working for the Montana Alliance for Progressive Policy. The Alliance supports the general concept of income tax reform included in HB 904. It is not a perfect bill from our standpoint - but even as a compromise we feel it is a step in the right direction.

I hope that we can all agree on one thing: our current income tax system is unfair and in need of reform. Years of erosion through special interest tax breaks have left a tax system which is both confusing and unfair. That's why we support the concept of broadening the tax base, believing that our tax system is more fair with a broad base rather than our current system which is riddled with special loopholes. This testimony will address the implications of HB 904 in relation to three areas: revenue, fairness, and economic development.

REVENUE

HB 904 In Conjunction With Federal Tax Reform Still Amounts To An Overall Tax Decrease for Montanans

Federal tax reform reduces taxes for Montana individual by $110 million in calender year 1988. HB 904's surtax amounts to less than 1/4 of this amount. Even after including the increase in state revenue due to federal reform, the increase in total state taxes (HB 904 + Increase due to federal reform) is little more than 1/2 the reductiomn in federal taxes.

While Montanans will pay less taxes overall, more of their tax dollars will remain in Montana. Conversely, less of these tax dollars will go to the federal government. This makes sense since the federal government has been decreasing its monetary contribution to Montana over the past decade while increasing the state's funding responsibility for many programs left in the federal lurch.

HB 904 Is Revenue Neutral In Relation To Current Law - Except For The Temporary 10% Surtax

Without the 10% surtax, HB 904 raises the same amount of revenue as current law. (see chart)

* **HB 904 Raises $45.5 Million Over the Biennium.**

The only majoar increase in state tax collections over current law results from the temporary 10% surtax which raises $44.5 million over the biennium. HB 904,according to the

SENATE TAXATION
EXHIBIT NO. 4
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* HB 904 Could Be Made Even More Fair By Changing the Rate Structure And Instituting a Minimum Tax

The proposed closing of the deduction of federal taxes loophole allows a decrease in the current 9%, 10% and 11% rates to 8%. The problem lies with the fact that the rates stop being progressive after only $12,000. Does the average Montana household with a taxable income of $15,750 belong in the same tax bracket as those earning $150,000?

As originally introduced HB 904 included an alternative minimum tax. In its present form HB 904 does not include a minimum tax. A minimum tax similar to the federal minimum tax would be easy to administer. It would also insure that all Montanans able to pay taxes would at least pay some Montana taxes.

ECONOMIC DEVELOPMENT

* Lower Top Marginal Rates May Affect Some People's Perception of Montana's Tax Structure

We are told this could affect Montana's business climate - even though many studies have shown that the rate of individual income taxes does not affect a state's economic performance.

* HB 904's Treatment of Capital Gains Is Consistent With The New Federal Tax Reform Act And Makes Sense In Terms of Fairness

Before the Tax Reform Act of 1986, capital gains were given preferential tax treatment. Namely, 60% of a capital gain was exempt from taxation. The Tax Reform Act of 1986 basically treats a capital gain as ordinary income - that is, no portion is tax exempt. However, the special treatment of capital gains resulting from the sale of a home is retained. Taxpayers over age 55 are allowed a 1 time sale of their residence in which the entire capital gain is tax exempt. All other homeowners can defer any gain they make on the sale of a home if they buy another home within a two year period.

However, in general the preferential treatment of capital gains is unfair.

-Income from capital gains is given a tax preference not available to income from wages or salaries. For example, suppose HB 904 was amended to exempt 60% of a capital gain. The result:

	$100,000 capital gain	$100,000 wage income
tax exempt	$60,000	$0
taxable	40,000	$100,000
HB 904 tax bill	3,830	7,670

The taxation of the wage income is double that of capital gains.

SENATE TAXATION
EXHIBIT NO 4
DATE 4-7-87

-Only a small number of Montana taxpayers actually benefit from the preferential treatment of capital gains. Specifically, only 16.3% of Montana households itemized capital gains in 1985.

-The preferential treatment of capital gains primarily benefits the wealthiest Montanans.

the 0.5% of households earning more than $120,000 and itemizing capital gains (1,884 households) obtained $12,221,000 for an average tax savings of $8,570 per return.

the 6.4% of households earning less than $21,000 and itemizing capital gains (18,378 households) obtained less than $950,000 for an average tax savings of $54.

83.7% of Montana households obtained no direct benefit from the the preferential treatment given to capital gains

HB 904's Treatment of Capital Gains Makes Sense In Terms of Economic Development

I do not know of any study showing that the preferential treatment of capital gains induces people to invest, rather than spend their money. It has been demonstrated that individuals may tend to switch from one form of investment to another in order to take advantage of the preference. And it is becoming increasingly apparant that certain types of investment, such as land speculation, absentee farming, and plow out should be discouraged rather than subsidized.

It does not seem logical for the people of Montana, through their tax structure, to absorb blindly a substantial volume of speculative risk when the investments may be inefficient, unproductive and even counter-productive.

*** Preferential Treatment of Capital Gains May Be Economically Inefficient According to the U.S. Treasury Department**

"Along with other provisions that establish special tax treatment for particular sources and uses of income, the preferential tax rate for capital gains is one of an elaborate series of tax incentives for particular businesses and investments. These incentives impede the efficiency of an economy based on free market principles. This undeclared government industrial policy largely escapes public scrutiny, yet it increasingly controls the form and content of business and investment activity." (Tax Notes, December 3, 1984)

*** Preferential Treatment of Capital Gains May Be Counter-Productive**

"Current tax laws provide insufficient incentive for many investors to risk their savings in new businesses, and excessive incentive to place their savings into non-productive assets which add nothing to the strength of the ecoomyh. The purely speculative returns on such investments as gold, silver, gems, paintings, stamps and antiques represent the diversion of scarce capital from productive investment." (Statutes of California)

-Only a small number of Montana taxpayers actually benefit from the preferential treatment of capital gains. Specifically, only 16.3% of Montana households itemized capital gains in 1985.

-The preferential treatment of capital gains primarily benefits the wealthiest Montanans.

the 0.5% of households earning more than $120,000 and itemizing capital gains (1,884 households) obtained $12,221,000 for an average tax savings of $8,570 per return.

the 6.4% of households earning less than $21,000 and itemizing capital gains (18,378 households) obtained less than $950,000 for an average tax savings of $54.

83.7% of Montana households obtained no direct benefit from the the preferential treatment given to capital gains

HB 904's Treatment of Capital Gains Makes Sense In Terms of Economic Development

I do not know of any study showing that the preferential treatment of capital gains induces people to invest, rather than spend their money. It has been demonstrated that individuals may tend to switch from one form of investment to another in order to take advantage of the preference. And it is becoming increasingly apparant that certain types of investment, such as land speculation, absentee farming, and plow out should be discouraged rather than subsidized.

It does not seem logical for the people of Montana, through their tax structure, to absorb blindly a substantial volume of speculative risk when the investments may be inefficient, unproductive and even counter-productive.

*** Preferential Treatment of Capital Gains May Be Economically Inefficient According to the U.S. Treasury Department**

"Along with other provisions that establish special tax treatment for particular sources and uses of income, the preferential tax rate for capital gains is one of an elaborate series of tax incentives for particular businesses and investments. These incentives impede the efficiency of an economy based on free market principles. This undeclared government industrial policy largely escapes public scrutiny, yet it increasingly controls the form and content of business and investment activity." (Tax Notes, December 3, 1984)

*** Preferential Treatment of Capital Gains May Be Counter-Productive**

"Current tax laws provide insufficient incentive for many investors to risk their savings in new businesses, and excessive incentive to place their savings into non-productive assets which add nothing to the strength of the ecoomyh. The purely speculative returns on such investments as gold, silver, gems, paintings, stamps and antiques represent the diversion of scarce capital from productive investment." (Statutes of California)

* Preferential Treatment of Capital Gains Is Especially Inefficient and Counter-Productive For Agriculture

"In total [these tax rules - especially capital gains] increase the attractiveness of owning farm assets and lead to 1) larger investmens by non-farm people in farm assets, 2) larger farms owned and/or operated by those farmers who are aable to exploit tax opportunities, and 3) more corporate farms..." (USDA, Another Revolution in US Farming.

"The capital gains feature of the current [pre-1987] federal income tax provisions appears to be a major incentive for converting rangeland to cropland...the capital gains feature provides greater incentives to those at higher marginal tax rates who are not going to retain cropland for production but who are going to take capital gains as soon as other advantages are dissipatged.

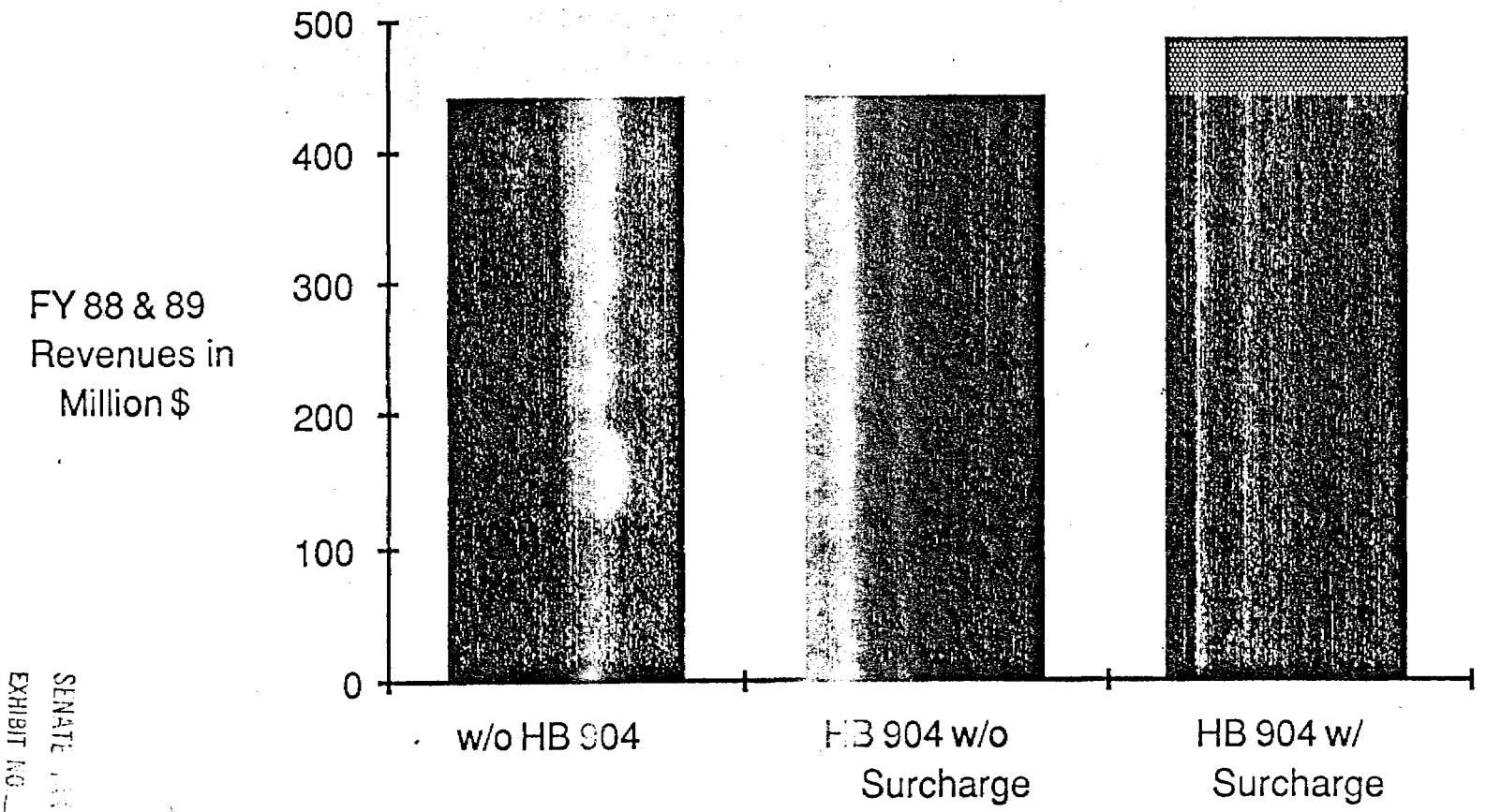
In order to expense conversions costs the first year, the investor must have a tax liability on ordinary income from other sources." (Cooperative & Extension Service "Economic Incentives for Converting Rangeland to Cropland," MSU.)

While the relationship between the preferential treatment of capital gains and economic development has not been proven - that between education, the fiscal health of government and long term caital improvements AND economic development has been well established.

We do not know where the the foregone revenue will be spent; we do know that the revenue gained by closing the capital gains loophole will be spent in Montana for essential governmental services.

SENATE TAXATION
EXHIBIT NO. 4
DATE 4-7-87
BILL NO. H.B. 90

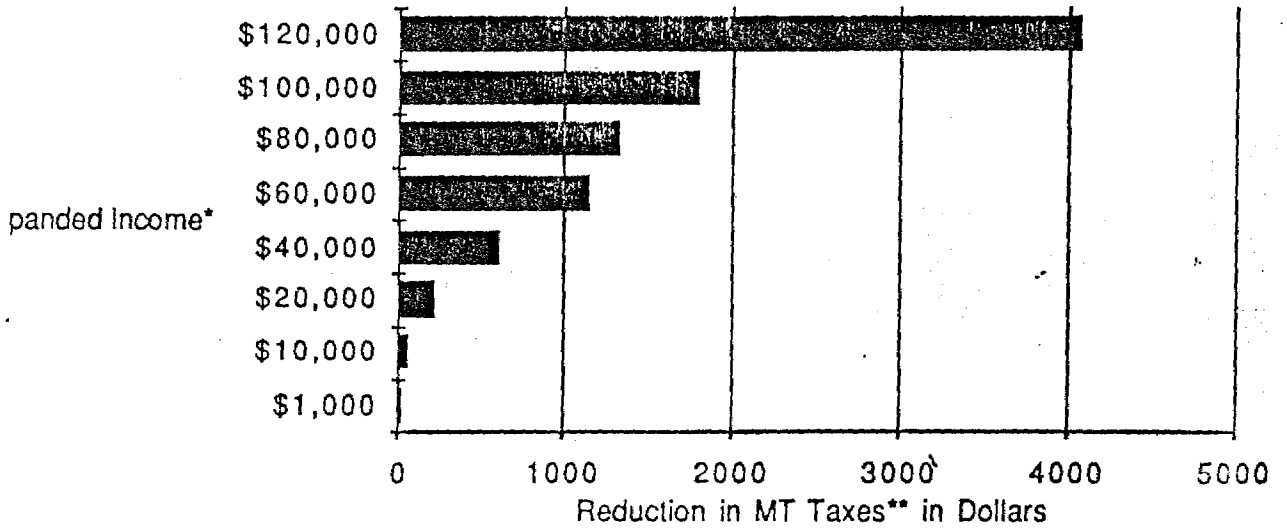
Revenue Comparison: Without HB 904, With HB 904 But no Surcharge, and HB 904 with Surcharge



Source: HB 904 Fiscal Note

SENATE [illegible]
EXHIBIT NO. 4
DATE 4-7-87
BILL NO. H.B. 904

Distribution of Tax Savings Among Taxpayers Deducting Federal Income Taxes For Montana Tax Purposes, 1983



Source: Montana Department of Revenue

* Expanded income is less than gross income but is as close as Dept. of Revenue could come using Montana tax returns.

** The tax reductions listed are averages for taxpayers in each expanded income bracket.

SENATE TAXATION
EXHIBIT NO. 4
DATE 4-7-87

2020 Fourth Avenue North
Great Falls, Montana
59405

April 7,1987

Senator George McCallum
Chairman Senate Taxation Committee
Senate Office Building
State Capitol, Helena, Montana

Dear Senator McCallum:

Thanks for the opportunity to appear before your committee on Tuesday, regarding HB 904. It really is too bad that a bill of this dimension must be given such limited time. In reality, this bill should be placed in a special committee within the Legislative Council, perhaps, for a year or so of study, or should be placed with a bi-partisan committee of the House and Senate for a two year study period. There is absolutely no doubt in my mind that the ramifications of this bill are so broad that the average Montanan has little conception of the changes inherent in our tax structures should this bill become law.

I think it was most unfair of the House to have such limited hearing in this matter, and the general public had a difficult time getting any information about when a hearing in the Senate would be. Only through a stroke of luck was I able to get the information on Monday at 4 p.m. about your committee's Tuesday a.m. hearing. I think this was most unfortunate and unfair to the many many people here who wished to appear but could not do so. While it is always true that many points are repeated both pro and con, the fact remains that the general public does not have paid lobbyists and has to rely upon attending hearings themselves.

Nevertheless, I should like to summarize the points which I attempted to make and which I neglected to write and leave with the committee secretary.

1. I still believe that the tax free status of my Teachers' Retirement System funds was really a part of a contract regarding my teaching years. Naturally, it is not a written and/or subsequently binding contract for legal purposes. Nevertheless, I hasten to add it provided a considerable incentive to remain in a profession which in its early years was certainly non-productive financially. Too, I ask you to remember that I had no choice about contributing to the system; that policy was stat law. Consequently, any money which I might have invested, other than in the Teache Retirement System, was not free for such investing, and only in later years woul any teacher have been able to invest funds outside of the system because pay was too high in those early years. In fact, pay is still not high for any beginning teachers. Had I not remained in the state service for the 36 years I did, I would not have had a decent retirement . And, as I noted to your committee, had I foreseen the possibility of rule making regarding taxation, I could well have stayed for a number of years and certainly would have tried to make some sort of investment to compensate for the changes that 904 now proposes, which will certainly reduce my spendable income. As I noted to your committee, every dollar taken from t taxpayers pocket, is one less dollar for the main street merchant.
2. One thing which bothers me greatly about the taxing policies being suggested for change in the Legislature this year, has to do with the tremendous breaks being given to corporations such as Burlington Northern, Columbia Falls Aluminum, oil a gas interests, mining, and even attempts to do the same for farming and ranching, we all do know desperately needs help.

SENATE TAXATION
EXHIBIT NO 5
DATE 4-7-87
BILL NO H.B. 904

The property tax initiatives on this last fall's ballot are but a minor indication of mental thinking of the people of this state, and what do I see in 904? A tax increase for most, a significant one for me and many like me, and no property relief. It really does seem fair. I ask you to remember that the corporate tax relief your legislative bodies generated are actually MONIES GOING OUT OF STATE to stockholders of the corporations or groups which have successfully sought and gotten relief. How can one say such relief will benefit Montana?

During the sessions I served, I sponsored and voted for (and was often subsequently condemned by my democratic friends for so doing,) certain legislation aimed at stimulating development within the state. It just didn't happen, and that legislation has been around for some 25 years. We even passed at one time, and I presume it is still on the books, a bill to provide at least a 5% or more benefit in projects let for bidding, yet most of bids go out of state anyway. I think this was even raised in later sessions. It just doesn't work that way.

3. I noted that since retiring in 1981, my net income has eroded by at least 18 per cent. Think of that! It has gone out through non-return in any tangible way, in no additional [illegible] I cite the following: water rates up, gas, electric, telephone increases; premiums on car insurance doubled because of my age, (and I have never had an accident or moving violation), house insurance increased by more than 50 per cent and I live in the same house; increased premiums for Medicare, Blue Shield-Blue Cross, and AARP insurance; an inflation rate in the six year period of about 18 per cent alone, and five per cent already indicated for this year; no property tax rebate, and in spite of reclassification, a tax increase. Shall I go on? I am almost certain you too know what I am writing about.

And how can I replace this income lost which 904 now will attempt to further erode? I am not able to perform much work physically, I have let my teaching certificate lapse and maybe I shouldn't teach anyway, for one is inclined to become a bit cynical, and that is not a good mental state.

Thinking back, I remember serving in the House in 1961, 1963, 1967, and 1969. I also served a two year term on the Great Falls city council. During my legislative service, I had to take a leave of absence without pay from my teaching position, a terrible sacrifice, I did it in hopes of improving our state. I actually lost retirement time to do this service. For the four terms, I think I was credited with one full year in the system, which I had to buy. Of course I was fortunate to get that, in spite of the fact that for most of that time I served on the legislative council or some other group and always was traveling back and forth to Helena. You know how that goes.

4. I mentioned that perhaps someone might wish to carry a resolution making an intense study of properties not on the tax rolls, due either to political pull or because they are social, fraternal, religious, or charitable and so on. You will be astounded. Why should not these groups be required to support the state as well? The monies raised by many of these groups, religious or otherwise, leave Montana for other states or countries, and our losses are in the millions of dollars. I urge your committee to suggest or undertake such a study as this. It is long overdue.

5. I believe the tax bill regarding teacher retirement will have a detrimental effect on school costs in another way. If benefits are taxed upon retirement, high [illegible] teachers and administrators will choose to remain rather than be encouraged [illegible] paid to retire as many of us have been in the past half dozen years, opening the way for younger and bottom scale teachers. Think about this; school districts have enough trouble already with budgeting. I know that had I known six years ago what I now know, I should have remained in the profession.

6. Finally, as I noted before your committee, the state is planning to freeze salaries of state workers for the next biennium; massive cuts have been made; the federal government has tried to lower taxes, yet 904 intends to raise them. One of the witnesses this a.m. [illegible] basically, a significant group will see large tax increases.

There is no doubt in my mind that some of the statements made by several of the lobbyists this a.m. about going to the public to get a 15 per cent voter referendum on almost any tax bill, and especially this one, will succeed. Such action would paralyze state government, whether this or any sales tax bill ever gets out of the legislative halls.

I urge you to consider grandfathering (I am one, and perhaps you are too,) some relief int this bill for those of us who have already retired. I also suggested a minimum tax such as a surcharge on the net income for tax purposes a person filing with the IRS will pay. For instance, if I pay $1000 in Federal taxes, perhaps a 2 or 3 or 4 per cent figured on the taxes I owe the IRS, and then I just file a copy of the IRS and enclose the check and that is it. This may not even have merit, for I know of some people who would have a heckuva tim paying any more taxes of any kind any time.

The story I told your committee about one of the first bills I introduced in 1961, asking for a guarantee of $100 a month for retired teachers, was an honest-to-God truth. Teachers are not in that bad a condition today, but I hasten to remind you that education has alway been the first to suffer the burdensome cuts in any monies of any kind, and is always the last to receive additional monies when times are good.

We try, all of us, to staff our schools with good teachers. Don't injure those of us who i the past tried our best to perform service to our schools, community and state considering the tax freee status of our pensions as a contract along with our service and teaching co tract. I trust you can work something out. What this state needs is statesmanship and out standing leadership now as never before. We do not need division, for referendums will o polarize forces and work to the detriment of any recovery, socially, economically, or politically.

I do not envy you your position and work. Having been there, I know you, as well as most senators and representatives who are there, work hard, get little pay, and even less cred Yet, as you know, it is a job which has to be done.

Sincerely yours,

William. E. Spahr

P.S. Maybe you would like to share this with some of your members. I also would like to add that if Feaver were on my staff and were I governor and had he come to a commit with threats as he did to your committee regarding changes and so on, I'd have kick his butt out and as of 5 p.m. today he'd be somewhere slopping pigs.

SENATE TAXATION
EXHIBIT NO. 5
DATE 4-7-87
BILL NO. H.B. 904

NAME: Harry B Carlson DATE: 4/7/87

ADDRESS: Box 1147 Helena

PHONE: 442-3540

REPRESENTING WHOM? MT Society of CPA's

APPEARING ON WHICH PROPOSAL: HB 904

DO YOU: SUPPORT? _____ AMEND? _____ OPPOSE? XX

COMMENTS:

Opposed Because of the rate structure proposed — Large tax burden of income tax is shifted dramatically within 50% of the income taxpayer

PLEASE LEAVE ANY PREPARED STATEMENTS WITH THE COMMITTEE SECRETARY.

SENATE TAXATION
EXHIBIT NO. 6
DATE 4-7-87
BILL NO. H.B. 904

APRIL 7, 1987
TESTIMONY BY GARY B. CARLSON, CPA
ON BEHALF OF THE MONTANA SOCIETY OF CPAs

HB 904 - BEFORE THE SENATE TAXATION COMMITTEE

For over two months the Montana Society of CPAs has worked for tax simplification with members of this committee. It of course started with SB 307, evolved through the special subcommittee to this committee to become the "gray bill". Now our membership; even though in the pressure packed waning hours of tax season; are taking notice. Clients are beginning to call - of course upset - some members are seeing red.

I feel this episode is an analogy of the Pete (SB 307) and Repeat (HB 904) story.

We will not repeat our SB 307 story; much was accomplished between February 19 and the middle of March in compromise on the proposal for individual tax return filing simplification. Even last week - the spite was here - Rep. Harp proposed amending HB 904 and the alternative minimum tax was removed. We strongly oppose putting this provision back in - a major unknown impact.

Our membership is n[illegible]g us (the committee representing Montana CPAs) that they can't tell HB 904 is a "good book from the cover"!

The Montana Society goes on record as <u>opposing</u> HB 904 because of the rate structure contained in the bill. We feel strongly the bill is camouflaging a mammouth tax increase from the taxpayers of the State of Montana -- compounding the windfall with further income tax increases.

If this legislature must choose to raise additional revenue from individual income taxes, be up front with the taxpayers.

SENATE TAXATION
EXHIBIT NO. 6
DATE 4-7-87
BILL NO. H.B. 904

To refresh your recall of February 19th and February 24th when we presented the MSCPA database information: graphs from our nonstatistical database returns showed major increases in income taxes comparing the windfall to 1985 actual, SB 307 and another proposal alive at that time.

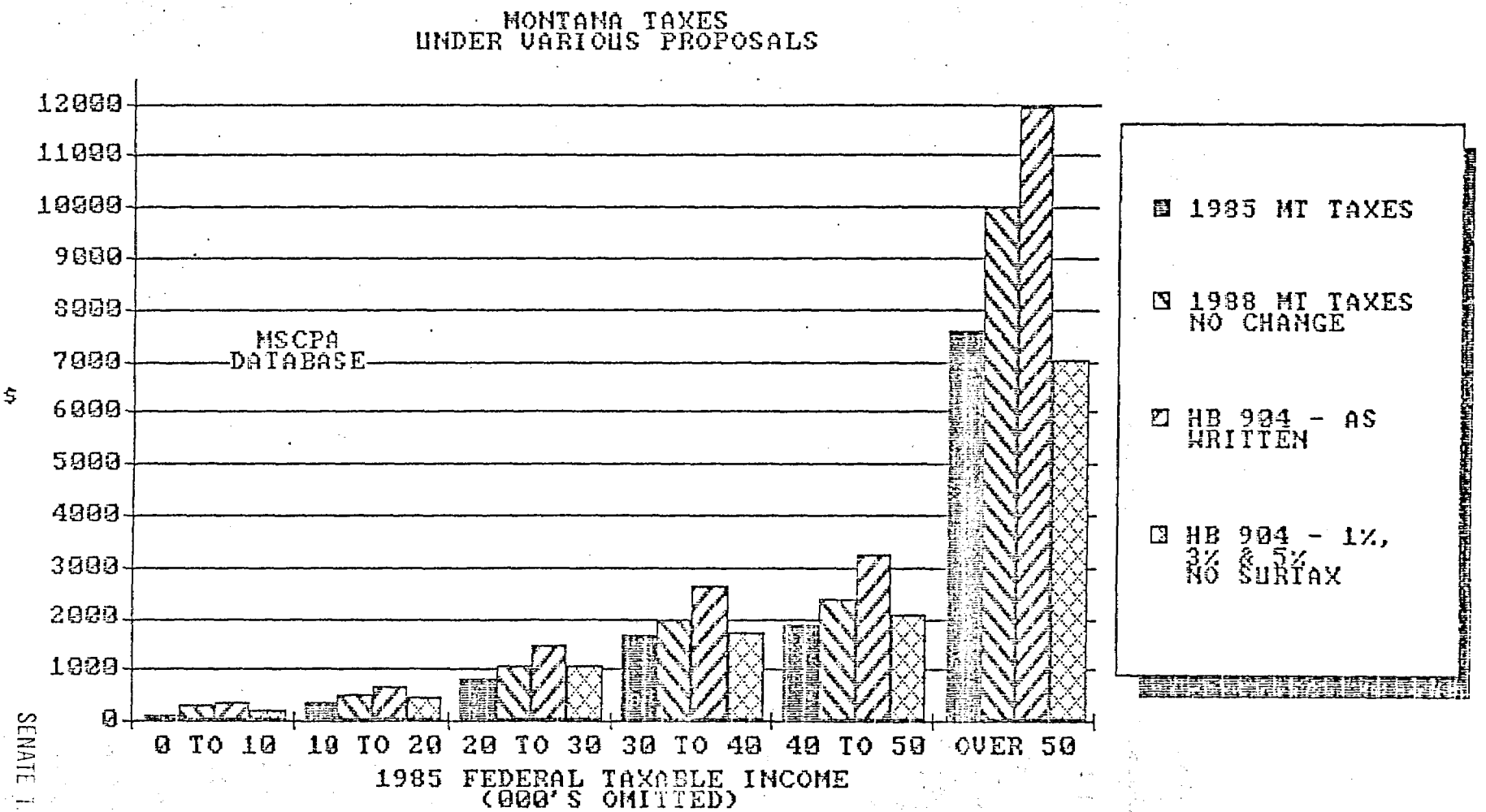
In February we emphasized the proposal was a major shift in tax burden. The shifting of responsibility to 50% of the individual income taxpayers.

These proposed rates (in HB 904) taken in tandem with fuel tax increases, workers' compensation costs, sales taxes and probably many others is hitting our main street businesses.

Take our successful druggist:			
Schedule C	$25,000		
Wife	10,000		
Interest & Dividends	4,300		
Other income	1,500		
Two IRAs	(4,000)	$36,800	AGI
Children Raised - 2 Exemptions			
Federal itemized deduction	2,200		
1985 actual tax		$683	
1987 (904) without surtax		$2,130	
10% surtax		213	
		$2,343	
Increase:	$1,660		
% of Increase:	243%		

We have rerun our now statistical database information to reflect HB 904 in comparison to the 1985 actual taxes, '88 no law change, HB 904, and changing 904 rates to 1, 3 & 5%.

SENATE TAXATION
EXHIBIT NO 6
DATE 4-7-87



SENATE TAXATION
EXHIBIT NO 6
DATE 4-7-87
BILL NO H.B. 904

We feel strongly this committee should recommend a permanent rate structure more closely paralleling the current revenue before the windfall and then be up front with the taxpayers on the amount of income tax surtax needed to meet your expenditure goals.

This will take lowering the rates and possibly broadening the proposed brackets -- changing to 1-3-5% isn't even enough.

If you can't find a strong concensus for lowering the rates in 904 and then we support leaving individual income tax law as is; but, tell the taxpayers plainly and clearly about the tax increase due to the windfall.

The comparative % of income taxes paid:
1984 - 48-50% of the taxpayers paid 82% of the taxes.
1985 - 50% of the taxpayers paid 92% of the taxes.

1987 - (307) 50% would pay 94%
HB 904 50 % would pay 95% - 47.5% by the top 10%

Some people will have fast feet. I have one client who left January 1, 1987. Two years ago we analyzed the difference between Montana and Arizona taxes - about $200.

We discourage dangling separate new items on to HB 904 (such as Capital Gains.)

1986 - paid Montana $2,500 taxes
1987 - paid Montana 0 taxes
5,000 returns X 2,500 = 12.5 million
10,000 returns X 2,500 = 25 million

We do favor tax simplification in filing Montana returns, but the price is too high (rates).

We strongly oppose HB 904 as presented with its current rates. It is a shift of tax burden.

SENATE TAXATION
EXHIBIT NO. 6
DATE 4-7-87
BILL NO. H.B. 904

APRIL 7, 1987
TESTIMONY SUPPLEMENT
ON BEHALF OF THE MONTANA SOCIETY OF CPAs

HB 904 - BEFORE THE SENATE TAXATION COMMITTEE

MAINSTREET DRUGGIST:

Tax characteristics from 1985 return modified by TRA '86 changes to reflect 1988 taxable income.

	1988
Schedule C	$25,300
Wife Compensation	10,000
Interest and Dividends	4,400
Other Income	1,100
Gross Income	40,800
IRAs	(4,000)
Adjusted Gross Income	$36,800

Results in the same AGI as 1985 - therefore NO impact to this taxpayaer on income side due to TRA '86.

Taxable income (1988):	
AGI	$36,800
Standard Deduction	(5,000)
Exemptions	(3,900)
Federal Taxable Income (1988)	$27,900

Montana income taxes		Change	%
1985 - actual	$683		
1988 - no change in Montana law	718	+35	5%
1988 - HB 904, No Surtax	1,900	+1,217	178%
1988 - HB 904, 10% Surtax	2,090	+1,407	206%

This illustration differs from our oral presentation because it uses 1988 for calculations rather than 1987. Almost all other data presented to t committee has been 1988; therefore, we chose to use '88 for this illustration.

The basic reasons for changes in 1988 HB904 increases are:

A) No deduction for federal income taxes
B) Loss of ability to file married filing separately on Montana return.

SENATE TAXATION
EXHIBIT NO. 6
DATE 4-7-87
BILL NO. H.B. 904

THE MONTANA SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS
Diamond Block Building • 44 West Sixth Avenue • P.O. Box 138 • Helena, Montana 59624-0138 • Telephone 406/442-7301

April 13, 1987

TO: The Honorable George McCallum

FROM: Gary B. Carlson, Legislative Committee Chairman

RE: STATE INCOME TAX PROPOSALS

As a profession, we are concerned the *permanent* state income tax rates, under consideration by the legislature, camouflage a huge income tax increase, compounding the "windfall" with additional tax increases. Not only do we question Department of Revenue projections, we feel the public is unaware of the potential impact. In addition, the income tax burden shift reflected in current proposals is unacceptable. The $208 million current law base revenue figure provided by the Department of Revenue includes a $24 to $30 million increase, known as the "windfall."

We do support rates of 2, 4 and 6 percent, with the addition of a *temporary surtax* to address the projected revenue shortfall, and broadened tax brackets. In this manner, legislators would be "up front" with taxpayers: an income tax increase is required to fund state revenue needs.

On the back, we have reproduced the tax profile of a Main Street business, distributed to the Senate Tax Committee on April 7, which shows the impact of various tax scenarios.

We question the simplification aspect of continuing capital gains at the state level. The deviation from federal policy complicates the return filing process.

If you would like additional information, please contact me at 442-3540.

SENATE TAXATION
EXHIBIT NO. 6
DATE 4-7-87
BILL NO. H.B. 904

APRIL 7, 1987
TESTIMONY SUPPLEMENT
ON BEHALF OF THE MONTANA SOCIETY OF CPAs

HB 904 - BEFORE THE SENATE TAXATION COMMITTEE

MAIN STREET BUSINESS:

Tax characteristics from 1985 return modified by TRA '86 changes to reflect 1988 taxable income.

	1988
Schedule C	$25,300
Wife Compensation	10,000
Interest and Dividends	4,400
Other Income	1,100
Gross Income	40,800
IRAs	(4,000)
Adjusted Gross Income (AGI)	$36,800

Results in the same AGI as 1985 - therefore there is NO impact to this taxpayer on income side due to TRA '86.

Taxable income (1988):	
AGI	$36,800
Standard Deduction	(5,000)
Exemptions	(3,900)
Federal Taxable Income (1988)	$27,900

Montana income taxes		Change	%
1985 - actual	$683		
1988 - no change in Montana law	718	+35	5%
1988 - HB 904, (4,6,8%) No Surtax	1,900	+1,217	178%
1988 - HB 904, 10% Surtax	2,090	+1,407	206%

This illustration differs from our oral presentation because it uses 1988 for calculations rather than 1987. Almost all other data presented to the committee has been 1988; therefore, we chose to use '88 for this illustration.

The basic reasons for changes in 1988 HB904 increases are:

A) No deduction for federal income taxes
B) Loss of ability to file married filing separately on Montana return.

Amend House Bill No. 904, Second Reading Copy

1. Page 27, line 4.
Following: "received"
Insert: "by a person, who retires on or after January 1, 1988,"

2. Page 27.
Following: line 7
Insert: "(d) all benefits received by a person, who retires before January 1, 1988, as an annuity, pension, or endowment pursuant to any public retirement plan under Title 19, chapters 3 through 9 and 13;"

jhl/hb904cw4.txt

SENATE TAXATION
EXHIBIT NO. 7
DATE 4-7-87
BILL NO HB 904

NAME Mons L Teigen BILL NO. House 904

ADDRESS Box 1679 Helena DATE 4/7/87

WHOM DO YOU REPRESENT MLS Taxpayers & Cattlewomen

SUPPORT _____ OPPOSE X AMEND _____

PLEASE LEAVE PREPARED STATEMENT WITH SECRETARY.

Comments:

Our organizations do not believe that increasing income taxes is the way to achieve tax equity. We have supported instead the passage of a sales tax such as HB 377.

On a personal note, as a recent retiree the taxation of retirement benefits, annuities etc is resisted. This bill if enacted would increase my own income tax to the state by 12%. Please do not pass.

SENATE TAXATION
EXHIBIT NO. 8
DATE 4-7-87
BILL NO. H.B. 904

Senator Lybeck said we had a sawmill and lumber plant in the Flathead and because of the situation with the taxes, when they shut it down they immediately went in and liquidated the two buildings and everything else they had there. With this bill in place, there might have been a possibility they would have stayed on.

A roll call vote was taken on Senator Halligan motion to table and the motion failed 3-9, see attached.

Senator Mazurek said his intent would be to leave section 1 as is and then to make them eligible for the treatment given in HB 709 so that the local government has to approve it. On HB 709 that credit is for new and expanding industry and he would rather have the provisions of that bill apply to this.

Senator Crippen is in favor of doing what Senator Mazurek suggests. He wants to apply the language that pertains to local people from HB 709 so that it is consistent with the provisions of HB 709.

Senator Halligan said that is the same amendment Senator Keating proposed on the floor on foreclosure and bankruptcy.

Senator Mazurek said to strike everything except subsection 3 and tie it into the section in HB 709.

Jim Lear said if there seems to be a consensus to go along with Senator Mazurek's suggestion, that the committee adopt the concept and he will work with Senator Mazurek for the proper language for the standing committee report.

Senator Mazurek said all he is trying to do is have the committee adopt an amendment, that was addressed on the Senate floor, and do that as a compromise instead of adopting a new class of property. Senator Mazurek would so move. The motion carried.

Senator Halligan would move that HB 816 BE CONCURRED IN AS AMENDED. The motion carried.

FURTHER CONSIDERATON OF HB 904: Senator Brown said there are some things that are up in the air that he would need to know more about before he would feel comfortable about making an agreement as per what form HB 904 should take. We need to know how much revenue would be generated by tax returns with 4-6-8 rates and a 10% surcharge and the total that would be needed out of the education trust fund, if that would be necessary, to balance the budget as per HB 2 in Finance and Claims. By Monday morning we should be

able to know what the deficit is and the figures on the 4-6-8 rate with a surcharge and how much educational trust would be needed to balance the budget and the same information for 3-5-7 and for the existing law tax rates. Until we know those figures it would be difficult to make a decision on HB 904.

Senator Crippen said he knows there is a difference between his and LFA's.

Senator McCallum is not in favor of moving HB 904 until we know where we are.

Senator Neuman said we know pretty close. The conference committee can make some sort of adjustment, within a percent or so.

Senator Mazurek said one of the obvious concerns is that we have bumped ourselves up against a time concern. At 8 o'clock Monday morning we start hearing the budget bill.

Senator McCallum said it is simply illogical to figure any money into the budget from a sales tax.

Dave Hunter said the question was how does 4-6-8 and 3-5-7 compare in terms of a surtax. 4-6-8 with no surcharge raises just about the same amount of revenue as 3-5-7 with a 20% surcharge, or current law with no surcharge. If you take HJR 41, and HB 2 with the numbers that came our of Finance and Claims an hour ago and assume everything that is in the legislature in the current form passes except the sales tax, then you need HB 904 with a 10% surcharge and $40 million from the education trust to balance the budget and to have a $20 million ending fund balance. With the rates of 3-5-7 you need a 30% surcharge.

Senator McCallum said we are dealing with more than HB 2.

Dave Hunter furnished the committee with a fiscal status dated April 6, 1987 and information on the rates, attached as Exhibit 3.

Senator Crippen said you have made some assumptions assuming all of the bills listed in Exhibit 3 pass. What about HB 880, does he know where that is.

Dave Hunter said HB 880 passed Finance and Claims with no opposition from insurance companies.

Senator Crippen said what about SB 200.

Dave Hunter said SB 200 passed out of the House Taxation Committee and will be heard on the House floor Monday.

Senator Brown asked if this provided 0-0 for the foundation program.

Dave Hunter said his figures would include 0-0 for the foundation program.

Senator Brown asked if the revenue generated on the existing tax rates with a 10% surcharge would be identical to 4-6-8.

Dave Hunter said within a few million dollars.

Senator Crippen said if we adopt 3-5-7 you don't necessarily need a 30% surtax the first year, that would depend on how much you invade the educational trust fund.

Dave Hunter said with the 3-5-7 you need a 30% surcharge and $30 million. If you just went the surcharge route you would need another 15% in round figures.

Senator Crippen asked how come the LFA only needed a 22% surcharge with SB 307 and they didn't invade the educational trust fund.

Dave Hunter said he was never given a copy of the LFA report, but he would suspect they haven't broken the years apart.

Senator Crippen said if their figures are correct, could a substantial amount of the second year of the biennium from the sales tax be used for the first year.

Dave Hunter said it is a cash flow problem. If we could figure out how to get the revenue back into 1988 you could make it work.

Senator Hirsch asked if you went all educational trust fund into the year 1988 to balance the budget then what is the surcharge in 1988.

Dave Hunter-you would need all of the educational trust to meet cash flow in 1988. With $50 million left in the educational trust, if you went 3-5-7 you would need $88 million so you still would not have enough.

Senator Crippen said with 3-5-7 and no sales tax, for the first year to balance the budget you could take $30 million out of the education trust fund and you

would need a 16% surcharge.

Dave Hunter said if you take it all then you still need $13 million, which would be a 6% or 7% surtax. This is assuming a sales tax.

Senator Crippen said then if you had 3-5-7 with no sales tax and no money from the education trust fund, what are you looking at in 1989 for a surtax to balance the budget.

Dave Hunter said 30% without a sales tax and with all the other bills you have passed.

Senator Crippen said with the 3-5-7 a lot depends on the sales tax. If you don't get a sales tax you would be looking at a 30% surtax. If we went 3-5-7 we would have to explain to the people who vote in June that if they did not approve the sales tax they would be looking at a 30% surtax. If they did pass a sales tax then we would be back in good shape in 1989 and there would be a 15% surtax on to pay money back into the education trust fund.

Senator Mazurek said if we don't get this bill acted on today, it won't go on second reading until Tuesday.

Senator Crippen said if we met Monday morning and came to some conclusion it wouldn't make any difference.

Senator Neuman would like to ask Senator Aklestad how he feels about the question. Would he be willing to suspend the rules on Monday if the committee meets and comes to a conclusion on this bill to get it through second and third reading.

Senator Aklestad said if it came out of committee, whatever happened on the floor, if the votes were there to pass it on second reading then the votes would probably be there to pass it on third reading.

Senator Mazurek asked if he would recommend it to his caucus.

Senator Aklestad said he probably would.

Senator Brown said we need to focus on the other things in the bill that need to be decided on besides the rates and the surcharge.

Senator Crippen made a motion to adopt the capital gains language that was amended into SB 307 that gives a 40% exclusion for capital gains before December 31, 1986.

This would be worth about $1 million over the biennium. The motion carried with Senators Halligan, Lybeck, Mazurek and Neuman opposed.

Senator Neuman said his first motion would be to adopt the amendments attached as Exhibit 4, and his substitute motion would be to give the Governor the authority to make the proper appropriation, with $96 million being the maximum amount. The Governor would have the authority to reduce the appropriation to the amount that is necessary to fund the current schedules for the school foundation program.

The motion carried.

Chuck Nichols said in looking at the biennium without a sales tax, there is a $47 million deficit, which is HB 2 as it stands and the other revenue legislation that is in the pipe except for HB 377, HB 904 and SB 307. HB 904 as it currently reads, with a 3-5-7 rate, 10% surtax and to leave $20 million in the general fund, you would need to generate $96 million from the education trust fund or the sales tax. With 4-6-8, a 10% surtax and a $20 million balance in the general fund, you would need $20 million from a sales tax or the educational trust fund. Existing tax law is the same as 4-6-8.

Seantor Crippen said the estimates are very close.

ADJOURNMENT: The meeting adjourned at 6:57 p.m. to meet again Monday morning, April 13 at 7:00 a.m.

SENATOR GEORGE McCALLUM, Chairman

ah

ROLL CALL

TAXATION COMMITTEE

50th LEGISLATIVE SESSION -- 1987 Date 4-11-87

NAME	PRESENT	ABSENT	EXCUSED
SENATOR CRIPPEN	✓		
SENATOR NEUMAN	✓		
SENATOR SEVERSON	✓		
SENATOR LYBECK	✓		
SENATOR HAGER	✓		
SENATOR MAZUREK	✓		
SENATOR ECK	✓		
SENATOR BROWN	✓		
SENATOR HIRSCH	✓		
SENATOR BISHOP	✓		
SENATOR HALLIGAN, VICE CHAIRMAN	✓		
SENATOR McCALLUM, CHAIRMAN	✓		

Each day attach to minutes.

Office of Budget & Program Planning
Fiscal Status 04/06/87

Fiscal Year 1987

Beginning Balance 7/1/86	16.002
HJR 41 Revenues	356.076
HB 434 (Education Trust)	35.000
Funds Available	407.078
Disbursements	
Appropriations	352.487
Foundation Program	27.906
HB 434 Supplementals	25.787
Reversions	(4.000)
Total Disbursements	402.180
Ending Balance	4.898

Fiscal Year 88-89

Beginning Balance 7/1	4.898	0.000
HJR 41 Revenues	350.050	388.563
HB 2 Capital Land Grant	0.692	0.458
Total Available	355.640	389.021
Disbursements		
HB 2 - House Action	354.922	357.035
Foundation Program (HJR 41)	52.259	41.937
Debt Service & TRANS	15.400	20.406
Reversions	(6.500)	(6.500)
Total Disbursements	416.081	412.878
Projected Deficit	(60.441)	(23.857)

Bills Passed By Both Houses

*HB 021 21 Year Old Drinking Age	0.000	(0.233)
HB 039 Vo-Tech Transfer	(0.727)	(0.727)
*HB 136 Gas & Diesel Tax	0.830	1.982
HB 252 Coal Tax Reduction	(0.199)	(1.787)
HB 434 Supplemental (Lost Interest)	(3.979)	(3.979)
HB 512 Fee for Aircraft	(0.205)	(0.206)
HB 583 PSC Tax	1.769	1.680
HB 611 Indirect Costs - U. System	(1.136)	(1.136)
HB 623 Prevent Liquor Store Closure	(0.104)	(0.372)
*SB 026 Moss Mansion	(0.113)	0.000
*SB 046 Ag Loan Linked Deposit	(0.500)	0.000
SB 092 Compact Commission	(0.114)	(0.114)
SB 302 High School Tuition	(0.114)	(0.114)
SB 321 Mediate Ag Indebtedness	(0.075)	(0.025)
Total Impact	(4.667)	(5.031)
Remaining Deficit	(65.108)	(28.888)

*Signed by the Governor

SENATE TAXATION
EXHIBIT NO. 3
DATE 4-11-87
BILL NO. H.B. 904

Amendments to HB 904

1) Page: 77
   Line: 1
   Following: public instruction
   Strike: $96 million
   Insert: $63,281,000

2) Page: 77
   Following: Line 2
   Insert: If SB 228 is passed and approved the appropiation is reduced to $48,396,000.

3) Page: 77
   Line: 12
   Strike: Section 45

4) Page: 77
   Line: 12
   Insert: New Section. Section 45. The funds deposited to the windfall reserve account in (Section 5) may be used to pay obligations of the general fund in fiscal year 1988 if other revenues are not adequate to meet the obligations of the state.

SENATE TAXATION
EXHIBIT NO. 4
DATE 4-11-87
BILL NO. H.B. 904

Neuman